

Auditing Procedures Report

Issued under P.A. 2 of 1968, as amended and P.A. 71 of 1919, as amended.

Local Unit of Government Type <input checked="" type="checkbox"/> County <input type="checkbox"/> City <input type="checkbox"/> Twp <input type="checkbox"/> Village <input type="checkbox"/> Other		Local Unit Name County of Otsego, Michigan	County Otsego
Fiscal Year End December 31, 2007	Opinion Date June 12, 2008	Date Audit Report Submitted to State June 26, 2008	

We affirm that:

We are certified public accountants licensed to practice in Michigan.

We further affirm the following material, "no" responses have been disclosed in the financial statements, including the notes, or in the Management Letter (report of comments and recommendations).

YES
NO

Check each applicable box below. (See instructions for further detail.)

1. ☒ ☐ All required component units/funds/agencies of the local unit are included in the financial statements and/or disclosed in the reporting entity notes to the financial statements as necessary.
2. ☐ ☒ There are no accumulated deficits in one or more of this unit's unreserved fund balances/unrestricted net assets (P.A. 275 of 1980) or the local unit has not exceeded its budget for expenditures.
3. ☒ ☐ The local unit is in compliance with the Uniform Chart of Accounts issued by the Department of Treasury.
4. ☒ ☐ The local unit has adopted a budget for all required funds.
5. ☒ ☐ A public hearing on the budget was held in accordance with State statute.
6. ☒ ☐ The local unit has not violated the Municipal Finance Act, an order issued under the Emergency Municipal Loan Act, or other guidance as issued by the Local Audit and Finance Division.
7. ☒ ☐ The local unit has not been delinquent in distributing tax revenues that were collected for another taxing unit.
8. ☒ ☐ The local unit only holds deposits/investments that comply with statutory requirements.
9. ☐ ☒ The local unit has no illegal or unauthorized expenditures that came to our attention as defined in the *Bulletin for Audits of Local Units of Government in Michigan*, as revised (see Appendix H of Bulletin).
10. ☒ ☐ There are no indications of defalcation, fraud or embezzlement, which came to our attention during the course of our audit that have not been previously communicated to the Local Audit and Finance Division (LAFD). If there is such activity that has not been communicated, please submit a separate report under separate cover.
11. ☐ ☒ The local unit is free of repeated comments from previous years.
12. ☒ ☐ The audit opinion is UNQUALIFIED.
13. ☒ ☐ The local unit has complied with GASB 34 or GASB 34 as modified by MCGAA Statement #7 and other generally accepted accounting principles (GAAP).
14. ☒ ☐ The board or council approves all invoices prior to payment as required by charter or statute.
15. ☒ ☐ To our knowledge, bank reconciliations that were reviewed were performed timely.

If a local unit of government (authorities and commissions included) is operating within the boundaries of the audited entity and is not included in this or any other audit report, nor do they obtain a stand-alone audit, please enclose the name(s), address(es), and a description(s) of the authority and/or commission.

I, the undersigned, certify that this statement is complete and accurate in all respects.

We have enclosed the following:	Enclosed	Not Required (enter a brief justification)	
Financial Statements	<input checked="" type="checkbox"/>		
The letter of Comments and Recommendations	<input checked="" type="checkbox"/>		
Other (Describe) Single Audit	<input checked="" type="checkbox"/>		
Certified Public Accountant (Firm Name) Anderson, Tackman & Company, PLC		Telephone Number 906-495-5952	
Street Address 16978 S. Riley Avenue		City Kincheloe	State MI
		Zip 49788	
Authorizing CPA Signature <i>Kenneth A. Talsma</i>	Printed Name Kenneth A. Talsma, CPA		License Number 1101024989

County of Otsego, Michigan

BASIC FINANCIAL STATEMENTS

December 31, 2007

COUNTY OF OTSEGO, MICHIGAN

BOARD OF COMMISSIONERS

Kenneth Glasser
Chairman

Paul M. Beachnau
Vice Chairman

Erma Backenstose
Clark Bates
Allan Bentz
Michael Hyde

Doug Johnson
Paul Liss
Lee Olsen

OTHER OFFICIALS

John Burt
Appointed County Administrator

Susan DeFeyter
Clerk/Register of Deeds

Diann Axford
Treasurer

James D. McBride
Sheriff

Kyle Legel
Prosecuting Attorney

TABLE OF CONTENTS

	<u>Page</u>
INDEPENDENT AUDITOR’S REPORT	1
MANAGEMENT’S DISCUSSION AND ANALYSIS	3
BASIC FINANCIAL STATEMENTS:	
Government-Wide Financial Statements:	
Statement of Net Assets	12
Statement of Activities	13
Fund Financial Statements:	
Balance Sheet – Governmental Funds	14
Statement of Revenues, Expenditures, and Changes in Fund Balance – Governmental Funds	15
Reconciliation of Governmental Funds:	
Statement of Revenues, Expenditures, and Changes in in Fund Balances to the Statement of Activities	16
Proprietary Funds:	
Statement of Net Assets	17
Statement of Revenues, Expenses, and Changes in Net Assets	18
Statement of Cash Flows	19
Fiduciary Funds:	
Statement of Fiduciary Net Assets	20
Statement of Changes in Fiduciary Net Assets	21
COMPONENT UNITS:	
Financial Statements:	
Statement of Net Assets	22
Statement of Activities	23
NOTES TO FINANCIAL STATEMENTS	24

REQUIRED SUPPLEMENTARY INFORMATION:

Major Funds:

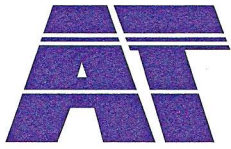
Budgetary Comparison Schedule – General Fund.....	57
Budgetary Comparison Schedule – M-TEC Fund.....	59
Budgetary Comparison Schedule – Housing Commission Fund	60
Budgetary Comparison Schedule – Revenue Sharing Reserve Fund.....	61
Budgetary Comparison Schedule – Public Improvement Fund	62
Budgetary Comparison Schedule – Library Fund	63

OTHER SUPPLEMENTARY INFORMATION:

Combining Balance Sheet – Nonmajor Governmental Funds.....	64
Combining Statement of Revenues, Expenditures, and Changes in Fund Balances – Nonmajor Governmental Funds	68
Combining Statement of Net Assets – Internal Service Funds.....	72
Combining Statement of Revenues, Expenses, and Changes in Net Assets – Internal Service Funds.....	73
Combining Statement of Cash Flows –Internal Service Funds	74
Combining Statement of Net Assets – Nonmajor Enterprise Funds	75
Combining Statement of Revenues, Expenses, and Changes in Net Assets – Nonmajor Enterprise Funds	76
Combining Statement of Cash Flows – Nonmajor Enterprise Funds.....	77

REPORTS ON COMPLIANCE:

Report on Internal Control Over Financial Reporting and on Compliance and on Other Matters Based on an Audit of Financial Statements Performed in Accordance with <i>Government Auditing Standards</i>	78
Report on Compliance with Requirements Applicable to each Major Program and on Internal Control Over Compliance in Accordance with <i>OMB Circular A-133</i>	80
Schedule of Expenditures of Federal Awards	82
Notes to Schedule of Expenditures of Federal Awards	84
Schedule of Findings and Questioned Costs	85
Schedule of Prior Year Audit Findings	88



ANDERSON, TACKMAN & COMPANY, PLC
CERTIFIED PUBLIC ACCOUNTANTS

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MEMBER AICPA
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MICHIGAN & WISCONSIN

INDEPENDENT AUDITOR'S REPORT

Members of the Board
County of Otsego, Michigan
225 West Main Street
Gaylord, Michigan 49735

We have audited the accompanying financial statements of the governmental activities, the business-type activities, the aggregate discretely presented component units, each major fund, and the aggregate remaining fund information of the County of Otsego, Michigan as of and for the year ended December 31, 2007, which collectively comprise the County's basic financial statements as listed in the table of contents. These financial statements are the responsibility of the County of Otsego's management. Our responsibility is to express opinions on these financial statements based on our audit.

We did not audit the financial statements of the Commission on Aging, which represents 4% and 10% of the assets and revenues of the Governmental Activities. We did not audit the financial statements of the Otsego County Road Commission, which represent 83% and 65% of the assets and revenues of the Discretely Presented Component Units. Those financial statements were audited by other auditors whose reports have been furnished to us, and our opinion, is so far as it relates to the amounts recorded for the Commission on Aging and Road Commission, is based solely on the report of the other auditors.

We conducted our audit in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation. We believe that our audit provides a reasonable basis for our opinions.


In our opinion, based on our audit and the report of the other auditors, the financial statements referred to above present fairly, in all material respects, the respective financial position of the governmental activities, the business-type activities, the aggregate discretely presented component units, each major fund, and the aggregate remaining fund information of the County of Otsego, Michigan as of December 31, 2007, and the respective changes in financial position and cash flows, where applicable, thereof for the year then ended in conformity with accounting principles generally accepted in the United States of America.

In accordance with *Government Auditing Standards*, we have also issued our report dated June 12, 2008 on our consideration of the County of Otsego's internal control over financial reporting and our tests of its compliance with certain provisions of laws, regulations, contracts, and grant agreements and other matters. The purpose of that report is to describe the scope of our testing of internal control over financial reporting and compliance and the results of that testing, and not to provide an opinion on the internal control over financial reporting or on compliance. That report is an integral part of an audit performed in accordance with *Government Auditing Standards* and should be considered in assessing the results of our audit.

The Management's Discussion and Analysis and budgetary comparisons as listed in the table of contents are not a required part of the basic financial statements but are supplementary information required by accounting principles generally accepted in the United States of America. We have applied certain limited procedures, which consisted principally of inquiries of management regarding the methods of measurement and presentation of the required supplementary information. However, we did not audit the information and express no opinion on it.

Our audit was conducted for the purpose of forming opinions on the financial statements that collectively comprise the County of Otsego's basic financial statements. The combining nonmajor fund financial statements are presented for purposes of additional analysis and are not a required part of the basic financial statements. The combining nonmajor fund financial statements have been subjected to the auditing procedures applied in the audit of the basic financial statements, and, in our opinion, are fairly stated in all material respects in relation to the basic financial statements taken as a whole.

The accompanying schedule of expenditures of federal awards is presented for purposes of additional analysis as required by U.S. Office of Management and Budget Circular A-133, *Audits of States, Local Governments and Non-Profit Organizations*; and is not a required part of the basic financial statements of the County of Otsego. Such information has been subjected to the auditing procedures applied in the audit of the basic financial statements, and, in our opinion, the information is fairly stated in all material respects in relation to the basic financial statements taken as a whole.


Anderson, Tackman & Company, PLC
Certified Public Accountants

June 12, 2008

Management's Discussion and Analysis

As management of the County of Otsego, we offer readers of the county's financial statements this narrative overview and analysis of the financial activities of the county for the fiscal year ended December 31, 2007. We encourage readers to consider the information presented here in conjunction with additional information that we have furnished in the accompanying basic financial statements.

Financial Highlights of the County as a Whole

- The assets of the County of Otsego exceeded its liabilities at the close of the most recent fiscal year by \$31,261,740 (*net assets*). Of this amount, \$8,514,348 (*unrestricted net assets*) may be used to meet the government's ongoing obligations to citizens and creditors.
- Governmental activities net assets were \$23,145,439.
- Business-type activity net assets were \$8,116,301.
- Component Unit net assets were \$21,296,739.

There were increases of \$2,472,204 and \$484,970 in net assets in the Governmental Activities and Business-Type Activities respectively. An increase of \$1,790,904 in net assets was realized in the Component Units.

In a condensed format, the table below shows the net assets of Otsego County.

	Governmental Activities		Business-Type Activities		Total	
	2007	2006	2007	2006	2007	2006
Current Assets	\$ 15,100,285	\$ 13,781,805	\$ 7,190,735	\$ 6,616,599	\$ 22,291,020	\$ 20,398,404
Noncurrent Assets	<u>14,030,352</u>	<u>13,179,650</u>	<u>1,092,167</u>	<u>1,231,496</u>	<u>15,122,519</u>	<u>14,411,146</u>
Total Assets	<u>\$ 29,130,637</u>	<u>\$ 26,961,455</u>	<u>\$ 8,282,902</u>	<u>\$ 7,848,095</u>	<u>\$ 37,413,539</u>	<u>\$ 34,809,550</u>
Current Liabilities	\$ 3,026,921	\$ 3,099,238	\$ 150,799	\$ 191,564	\$ 3,177,720	\$ 3,290,802
Noncurrent Liabilities	<u>2,958,277</u>	<u>3,188,982</u>	<u>15,802</u>	<u>25,200</u>	<u>2,974,079</u>	<u>3,214,182</u>
Total Liabilities	<u>5,985,198</u>	<u>6,288,220</u>	<u>166,601</u>	<u>216,764</u>	<u>6,151,799</u>	<u>6,504,984</u>
Net Assets						
Invested in Capital Assets - Net of Related Debt	10,777,407	9,781,382	1,045,250	1,142,287	11,822,657	10,923,669
Restricted	10,924,735	10,123,710	-	-	10,924,735	10,123,710
Unrestricted	<u>1,443,297</u>	<u>768,143</u>	<u>7,071,051</u>	<u>6,489,044</u>	<u>8,514,348</u>	<u>7,257,187</u>
Total Net Assets	<u>\$ 23,145,439</u>	<u>\$ 20,673,235</u>	<u>\$ 8,116,301</u>	<u>\$ 7,631,331</u>	<u>\$ 31,261,740</u>	<u>\$ 28,304,566</u>

The following table shows the activities of the County.

	Governmental Activities		Business-Type Activities		Total	
	2007	2006	2007	2006	2007	2006
Program Revenues						
Charges for Services	\$ 3,979,714	\$ 3,577,045	\$ 1,214,433	\$ 1,019,440	\$ 5,194,147	\$ 4,596,485
Operating Grants and Contributions	1,958,950	4,767,707	897,388	1,435,636	2,856,338	6,203,343
Capital Grants and Contributions	1,558,473	1,274,579	-	150,000	1,558,473	1,424,579
General Revenues						
Property Taxes	8,177,756	8,948,321	291,281	274,279	8,469,037	9,222,600
Unrestricted Investment Earnings (Loss)	946,389	362,198	(65,648)	264,872	880,741	627,070
Other Revenue	877,437	840,722	67,427	114,637	944,864	955,359
Transfers	<u>241,500</u>	<u>903,786</u>	<u>9,000</u>	<u>(76,023)</u>	<u>250,500</u>	<u>827,763</u>
Total Revenues	<u>17,740,219</u>	<u>20,674,358</u>	<u>2,413,881</u>	<u>3,182,841</u>	<u>20,154,100</u>	<u>23,857,199</u>
Expenses by Program						
Legislative	198,632	194,014	-	-	198,632	194,014
Judicial	1,871,992	4,148,536	-	-	1,871,992	4,148,536
General Government	2,605,935	2,526,211	-	-	2,605,935	2,526,211
Public Safety	3,138,521	3,379,454	-	-	3,138,521	3,379,454
Public Works	1,598,382	1,381,129	-	-	1,598,382	1,381,129
Health and Welfare	2,408,445	2,661,458	-	-	2,408,445	2,661,458
Community & Economic Development	957,092	1,163,344	-	-	957,092	1,163,344
Recreation and Culture	1,319,191	1,436,733	-	-	1,319,191	1,436,733
Other	993,934	478,317	-	-	993,934	478,317
Interest Unallocated	175,891	210,170	-	-	175,891	210,170
Delinquent Tax Collection	-	-	133,568	159,295	133,568	159,295
Public Transit	-	-	1,663,320	2,249,413	1,663,320	2,249,413
Other Expenses	<u>-</u>	<u>-</u>	<u>132,023</u>	<u>137,375</u>	<u>132,023</u>	<u>137,375</u>
Total Expenses	<u>15,268,015</u>	<u>17,579,366</u>	<u>1,928,911</u>	<u>2,546,083</u>	<u>17,196,926</u>	<u>20,125,449</u>
Changes in Net Assets	2,472,204	3,094,992	484,970	636,758	2,957,174	3,731,750
Net Assets Beginning	<u>20,673,235</u>	<u>17,578,243</u>	<u>7,631,331</u>	<u>6,994,573</u>	<u>28,304,566</u>	<u>24,572,816</u>
Net Assets Ending	<u>\$ 23,145,439</u>	<u>\$ 20,673,235</u>	<u>\$ 8,116,301</u>	<u>\$ 7,631,331</u>	<u>\$ 31,261,740</u>	<u>\$ 28,304,566</u>

Overview of the Financial Statements

This discussion and analysis is intended to serve as an introduction to the County of Otsego's basic financial statements. These statements are comprised of three components: 1) government-wide financial statements; 2) fund financial statements; and 3) notes to the financial statements. This report also contains other supplementary information in addition to the basic financial statements themselves.

Government-Wide Financial Statements – The *government-wide financial statements* are designed to provide readers with a broad overview of Otsego County's finances, in a manner similar to a private-sector business.

The *Statement of Net Assets* presents information on all of Otsego County's assets and liabilities, with the difference between the two reported as *net assets*. Over time, increases or decreases in net assets may serve as a useful indicator of whether the financial position of the Otsego County is improving or deteriorating.

The *Statement of Activities* presents information showing the Otsego County's net assets changed during the most recent fiscal year. All changes in net assets are reported as soon as the underlying event giving rise to the change occurs, *regardless of the timing of related cash flows*. Thus, revenues and expenses are reported in this statement for some items that will only result in cash flows in future fiscal periods (e.g., uncollected taxes and earned but unused vacation leave).

Both of the government-wide financial statements distinguish functions of Otsego County that are principally supported by taxes and intergovernmental revenues (governmental activities) from other functions that are intended to recover all or a significant portion of their costs through user fees and charges (business-type activities). ***Governmental activities*** include legislative, judicial, general government, public safety, public works, health and welfare, community and economic development, recreation and culture, and other functions. ***Business-type activities*** include delinquent tax collections, public transit, global positioning system, metropolitan area network, plat books, and the operation of an inmate commissary.

The county's governmental activities also include the blending of legally separate entities (component units) for which the county is financially accountable. The ***component units*** include the Otsego County Road Commission, Otsego County Sportsplex, Otsego County Ambulance Corporation, Otsego County Commission on Aging, and the University Center at Gaylord. Of the entities, the Commission on Aging, while legally separate, functions for all practical purposes as a department of the County and, therefore, has been included as an integral part of the primary government. Financial information for the balance of the component units are reported separately from the financial information presented for the primary government itself. Separately issued reports can be obtained from each component unit's office as stated in Note 1.

Fund Financial Statements – A fund is a grouping of related accounts and is used to maintain control over resources that have been segregated for specific activities or objectives. The County of Otsego, like other state and local governments, uses fund accounting to ensure and demonstrate compliance with finance-related legal requirements. All of the funds of Otsego County can be divided into three categories: governmental funds, proprietary funds, and fiduciary funds.

Governmental Funds – Most of the county's basic services are reported in governmental funds, which focus on how money flows into and out of those funds and the balances left at year-end that are available for spending. These funds are reported using the modified accrual basis of accounting, which measures cash and all other financial assets that can readily be converted to cash. The governmental fund statements provide a detailed short-term view of the county's general governmental operations and the basic services it provides.

Because the focus of governmental funds is narrower than that of the government-wide financial statements, it is useful to compare the information presented for *governmental funds* with similar information presented for *governmental activities* in the government-wide financial statements. By doing so, readers may better understand the long-term impact of the government's near-term financing decisions. Both the governmental fund balance sheet and the governmental fund statement of revenues, expenditures, and changes in fund balances provide a reconciliation to facilitate this comparison between *government funds* and *governmental activities*.

The County of Otsego maintains several individual governmental funds. Information is presented separately in the governmental fund balance sheet and in the governmental fund statement of revenues, expenditures, and changes in fund balances for each major fund of the county. The major funds of the county include the general; M-TEC, housing commission, public improvements, revenue sharing reserve, and airport funds. Data for the remaining governmental funds are combined into a single, aggregated presentation. Individual fund data for each of these non-major governmental funds is provided in the form of *combining statements* elsewhere in this report.

Proprietary Funds – The County maintains both types of proprietary funds: enterprise and internal service. *Enterprise funds* are used to report the same functions presented as *business-type activities* in the government-wide financial statements. The county uses enterprise funds to account for its delinquent tax, tax foreclosure, public transit, global positioning system, imaging, plat book, and jail commissary operations. *Internal service funds* are used to accumulate and allocate costs internally among the county's various functions. Otsego County has the following internal service funds: building and grounds, administrative services and health care. Because these services predominantly benefit governmental rather than business-type functions, they have been included within *governmental activities* in the government-wide financial statements.

Proprietary funds provide the same type of information as the government-wide financial statements, only with more detail. The proprietary fund financial statements provide separate information for each enterprise fund.

Fiduciary Funds – Fiduciary funds are used to account for resources held for the benefit of parties outside the government. Fiduciary funds are not reflected in the government-wide financial statements because the resources of those funds are not available to support the county's own programs. The accounting used for fiduciary funds is much like that used for proprietary funds.

Notes to the Financial Statements – The notes provide additional information that is essential to a full understanding of the data provided in the government-wide and fund financial statements.

Other Information – In addition to the basic financial statements and accompanying notes, this report also presents certain *required supplementary information* concerning Otsego County's budgeting for the major funds, which includes the original budget and final amended budget.

The combining statements referred to earlier in connection with non-major governmental funds and combining component unit funds are presented immediately following the required supplementary information.

Government-Wide Financial Analysis

The government-wide financial analysis focuses on the net assets and changes in net assets of the governmental and business-type activities. As noted earlier, net assets may serve over time as a useful indicator of a government's financial position. The county's net assets at December 31, 2007 totaled \$31,261,740, an increase of \$2,957,174 from the prior year.

The largest portion of the County's net assets, \$11,822,657 (38 percent), reflects its investment in capital assets (i.e., land, buildings, vehicles, equipment and infrastructure), less any related debt used to acquire those assets that is still outstanding. The County uses these capital assets to provide services to citizens; consequently, these assets are not available for future spending. Although the county's investment in its capital assets is reported net of related debt, it should be noted that the resources needed to repay this debt must be provided from other sources, since the capital assets themselves cannot be used to liquidate these liabilities.

An additional portion of the County's net assets, \$10,924,735 (35 percent), represents resources that are subject to external restrictions on how they may be used.

The remaining balance of \$8,514,348 (27 percent) represents *unrestricted net assets* that may be used to meet the County's ongoing obligations to citizens and creditors.

At the end of the current fiscal year, the county is able to report positive balances in all three categories (invested in capital assets-net of related debt, restricted, and unrestricted) of net assets, both for the government as a whole, as well as for its total governmental and business-type activities.

The County's overall net assets increased by \$2,957,174 during the current fiscal year. This increase is attributable to various reasons, as described in the following paragraphs:

Governmental Activities – Governmental activities increased the County's net assets by \$2,472,204. The increase is primarily due to growth in charges for services (approximate increase of \$402,669 from the prior year). Additionally, the Board of Commissioners has worked to manage its costs by increasing the efficiency of county operations, which is evident in the decrease of expenditures from the prior year (14 percent).

Business-Type Activities – Business-type activities increased the County's net assets by \$484,970. The increase is primarily due to significantly less transfers out of the Delinquent Tax Revolving Fund to fund governmental activities.

Financial Analysis of the County's Funds

As noted earlier, Otsego County uses fund accounting to ensure and demonstrate compliance with finance-related legal requirements.

Governmental Funds – The focus of the county's *governmental funds* is to provide information on near-term inflows, outflows, and balances of *spendable* resources. Such information is useful in assessing the county's financing requirements. In particular, *unreserved* fund balance may serve as a useful measure of a government's net resources available for spending at the end of the fiscal year.

On December 31, 2007, the county's governmental funds reported combined ending fund balance of \$10,330,195, an increase of \$1,375,939 when compared with the prior year. This is primarily attributable to increases in charges for services revenues, along with effectively managing expenditure levels. Of the fund balance amount, \$853,168 constitutes *unreserved fund balance*, which is available for meeting the county's current obligations.

The General Fund is the chief operating fund of the county. At the end of the current fiscal year, unreserved fund balance of the General Fund was \$792,082, with a total fund balance of \$853,900. The fund balance of the county's General Fund increased by \$398,365 during the current fiscal year. This is primarily attributable to increases in property tax revenues, offset by decreased funding from State and Federal sources, coupled with a 25 percent reduction in overall general fund expenditures.

The county's M-TEC fund had a total fund balance of \$33,435, which increased by \$33,392 from the prior year.

The County's Housing Commission had an ending fund balance of \$167,228, all of which was reserved for housing projects.

The County's Revenue Sharing Reserve Fund had an ending fund balance of \$3,093,993. This was a new fund beginning in 2004 and was created as a result of Public Act 357 of 2004. PA 357 of 2004 involves a gradual shift of county operating property tax millage from a winter tax levy to a summer tax levy and additionally, required the establishment of this restricted fund.

The County's Airport Construction Fund had an ending fund balance of \$50,643 which decreased \$52,682 from the prior year.

The County's Library Fund had an ending fund balance of \$737,089 which increased \$79,459 from the prior year.

Proprietary Funds – The County's proprietary funds provide the same type of information found in the government-wide financial statements, but in more detail.

Unrestricted net assets of the enterprise funds at year end amounted to \$7,071,051. The enterprise funds had an increase in net assets for the year of \$484,970, due primarily to enhanced investment earnings in the delinquent tax revolving fund.

Unrestricted net assets of the internal service funds at year end amounted to \$737,842. The internal service funds had an increase in net assets for the year of \$199,571.

Budgetary Highlights

General Fund – Differences between the original and final amended budgets for revenue of the general fund (revenue and other financing sources) resulted in a 12 percent increase (\$924,145).

Differences between the original and final amended budgets for expenditures (expenditures and other financing uses) resulted in a 12 percent increase, (\$924,145).

Prior management chose not to include certain portions of the 46th Circuit Court in the original General Appropriations Act and made monthly budget amendments to account for court system activity. This accounts for most of the large variance between original and final budgets.

Overall during the year, General Fund revenues (revenue and other financing sources) were in line with the budgetary estimates but came in lower than anticipated by \$83,755 or 1 percent. Expenditures (expenditures and other financing uses) were below the budgetary estimates. Overall expenditures were under budget by \$314,610 or 4 percent. The greatest variance for both revenues and expenditures was due to the 46th Circuit Trial Court budgeting method, described in the previous paragraph.

M-TEC Fund – The M-TEC fund had an unfavorable variance between the final amended budget and actual expenditures by \$20,562 or 3 percent.

Housing Commission Fund – The Housing Commission Fund had a favorable variance between the final amended budget and the actual expenditures by \$345,820 or 69 percent.

Revenue Sharing Reserve Fund – The Revenue Sharing Reserve Fund had no variance between the final amended budget and transfers out.

Public Improvement Fund – the Public Improvement Fund had a favorable variance between final amended budget and actual of \$105,710.

Library Fund

The Library had a favorable variance between final amended budget and actual of \$76,434.

Budget-to-actual comparisons for the county's non-major special revenue funds were favorable.

Capital Asset and Debt Administration

Capital Assets. The County's investment in capital assets as of December 31, 2007, amounted to \$14,944,633, (net of accumulated depreciation). This investment in capital assets includes land and land improvements, buildings and improvements, machinery and equipment, and vehicular equipment. The total increase in the county's investment in capital assets for the current fiscal year was approximately 8 percent. Major capital asset events during the current fiscal year included the following:

- \$48,485 for law enforcement vehicles
- \$1,540,286 for the construction of an airport terminal
- \$12,238 for John Deere Gator for parks and recreation
- \$104,869 for Motorola Synergy Center
- \$952,509 in depreciation expense on county assets
- \$2,275 for Commission on Aging

Additional information on capital assets can be found in Note 5 of this report.

Long-Term Debt – Debt is classified as long-term if it matures in a period greater than one year. At the end of the current fiscal year, the county had total bonded debt outstanding of \$3,070,000. The County's total debt decreased by \$215,000 (7 percent) during the current fiscal year.

State statutes limit the amount of general obligation debt a governmental entity may issue to 10 percent of its total assessed valuation (State Equalized Value). The current debt limitation for the County is \$11,785,098, which is significantly in excess of the county's outstanding general obligation debt. Additional information on the county's long-term debt can be found in Note 7 of this report.

Economic Factors and Next Year's Budgets and Rates

The following factors were considered in preparing the county's 2008 budget:

- Property tax revenues are projected to increase 4 percent in 2007.
- The worsening state economy will result in decreasing state funding. The real effects of the decreases, particularly in State Revenue Sharing are yet to be known.
- The cost of employee benefits continue to rise and will be monitored throughout the year.

Highlights of the 2008 budget are as follows:

- The county implemented staffing and benefit cuts to manage rising costs.
- The county has adopted a goal of increasing its budget stabilization fund over the course of the next several years, in order to manage its costs and cash flows.

Contacting the County's Management

This financial report is intended to provide our citizens, taxpayers, customers, and investors with a general overview of the County's finances and to show the County's accountability for the money it receives. If you have any questions about this report or need additional information, please contact Mr. John Burt, Otsego County Administrator at 225 West Main Street Gaylord, MI 49735.

Basic Financial Statements

County of Otsego, Michigan

Statement of Net Assets December 31, 2007

	Primary Government			
	Governmental Activities	Business-type Activities	Totals	Component Units
ASSETS:				
Current Assets:				
Cash & Equivalents	\$ 7,604,385	\$ 2,658,535	\$ 10,262,920	\$ 1,049,654
Investments	3,167,458	1,830,537	4,997,995	1,455,067
Receivables:				
Taxes	2,332,784	2,195,007	4,527,791	1,483,194
Accounts	177,085	9,469	186,554	407,463
Interest	-	353,948	353,948	-
Loans	1,447,708	-	1,447,708	-
Advance to Component Units	18,318	-	18,318	-
Due from Governmental Units	261,683	143,239	404,922	898,206
Inventories	26,804	-	26,804	549,980
Prepaid Expenses	64,060	-	64,060	-
Total Current Assets	15,100,285	7,190,735	22,291,020	5,843,564
Noncurrent Assets:				
Advance to Component Unit	177,886	-	177,886	-
Internal Balance	5,059	(5,059)	-	-
Capital Assets Not Depreciated	3,180,183	99,998	3,280,181	170,157
Capital Assets (Net of Accumulated Depreciation)	10,667,224	997,228	11,664,452	17,950,847
Total Noncurrent Assets	14,030,352	1,092,167	15,122,519	18,121,004
TOTAL ASSETS	\$ 29,130,637	\$ 8,282,902	\$ 37,413,539	\$ 23,964,568
LIABILITIES:				
Current Liabilities:				
Accounts Payable	\$ 573,005	\$ 36,165	\$ 609,170	\$ 109,783
Accrued Liabilities	115,270	36,730	152,000	158,640
Other Liabilities	123,579	36,154	159,733	55,300
Due to Primary Government	-	-	-	18,318
Advances from Other Governmental Units	-	-	-	302,076
Due to Governmental Units	22,253	32,280	54,533	84,510
Deferred Revenue	1,933,378	-	1,933,378	1,535,427
Interest Payable	34,436	-	34,436	-
Bonds Payable	225,000	-	225,000	-
Capital Leases Payable	-	-	-	37,606
Installment Purchase Agreement	-	9,470	9,470	61,242
Total Current Liabilities	3,026,921	150,799	3,177,720	2,362,902
Noncurrent Liabilities:				
Vested Employee Benefits	113,277	-	113,277	99,077
Advances from Primary Government	-	-	-	177,886
Bonds Payable	2,845,000	-	2,845,000	-
Capital Leases Payable	-	-	-	17,261
Installment Purchase Agreement	-	15,802	15,802	10,703
Total Noncurrent Liabilities	2,958,277	15,802	2,974,079	304,927
TOTAL LIABILITIES	5,985,198	166,601	6,151,799	2,667,829
NET ASSETS:				
Invested in Capital Assets (net of related debt)	10,777,407	1,045,250	11,822,657	17,994,192
Restricted for Debt Service	88,749	-	88,749	-
Restricted for Capital Projects	1,211,884	-	1,211,884	-
Restricted for Ambulance and Emergency Services	-	-	-	153,313
Restricted for County Roads	-	-	-	2,037,249
Restricted for Sportsplex	-	-	-	507,766
Restricted for University Center	-	-	-	604,219
Restricted for Public Improvement	1,348,652	-	1,348,652	-
Restricted for Housing Commission	1,614,936	-	1,614,936	-
Restricted for Revenue Sharing	3,093,993	-	3,093,993	-
Restricted for Other Purposes	3,566,521	-	3,566,521	-
Unrestricted	1,443,297	7,071,051	8,514,348	-
TOTAL NET ASSETS	\$ 23,145,439	\$ 8,116,301	\$ 31,261,740	\$ 21,296,739

County of Otsego, Michigan

Statement of Activities For the Year Ended December 31, 2007

Functions/Programs	Expenses	Program Revenues			Net (Expense) Revenue and Changes in Net Assets			Component Unit
		Charges for Services	Operating Grants and Contributions	Capital Grants and Contributions	Primary Government			
					Governmental Activities	Business-Type Activities	Total	
Primary Government:								
Governmental Activities:								
Legislative	\$ 198,632	\$ -	\$ -	\$ -	\$ (198,632)	\$ -	\$ (198,632)	\$ -
Judicial	1,871,992	1,052,000	864,392	-	44,400	-	44,400	-
General Government	2,605,935	92,787	76,280	-	(2,436,868)	-	(2,436,868)	-
Public Safety	3,138,521	1,238,633	80,291	-	(1,819,597)	-	(1,819,597)	-
Public Works	1,598,382	1,026,769	85,275	1,558,473	1,072,135	-	1,072,135	-
Health & Welfare	2,408,445	385,997	539,837	-	(1,482,611)	-	(1,482,611)	-
Community and Economic Development	957,092	-	6,599	-	(950,493)	-	(950,493)	-
Recreation and Culture	1,319,191	183,528	204,276	-	(931,387)	-	(931,387)	-
Other	993,934	-	102,000	-	(891,934)	-	(891,934)	-
Interest - Unallocated	175,891	-	-	-	(175,891)	-	(175,891)	-
Total Governmental Activities	15,268,015	3,979,714	1,958,950	1,558,473	(7,770,878)	-	(7,770,878)	-
Business-type Activities:								
Tax Collection	133,568	725,684	-	-	-	592,116	592,116	-
Public Transit	1,663,320	353,813	897,388	-	-	(412,119)	(412,119)	-
Non-Major Enterprise Funds	132,023	134,936	-	-	-	2,913	2,913	-
Total Business-type Activities	1,928,911	1,214,433	897,388	-	-	182,910	182,910	-
Total Primary Government	\$ 17,196,926	\$ 5,194,147	\$ 2,856,338	\$ 1,558,473	(7,770,878)	182,910	(7,587,968)	-
Component Units:								
Road Commission	5,607,962	1,043,107	6,156,435	-				1,591,580
Ambulance	1,611,900	1,232,110	-	-				(379,790)
University Center	614,613	-	227,442	-				(387,171)
Sportsplex	1,237,517	726,380	-	-				(511,137)
Total Component Units	9,071,992	3,001,597	6,383,877	-				313,482
Total	\$ 26,268,918	\$ 8,195,744	\$ 9,240,215	\$ 1,558,473				
General Revenues and Transfers:								
Taxes					8,177,756	291,281	8,469,037	1,480,443
Investment Earnings (Loss)					946,389	(65,648)	880,741	181,942
Transfers					241,500	9,000	250,500	(250,500)
Other					877,437	67,427	944,864	65,537
Total General Revenues and Transfers					10,243,082	302,060	10,545,142	1,477,422
Changes in Net Assets					2,472,204	484,970	2,957,174	1,790,904
Net Assets - Beginning					20,673,235	7,631,331	28,304,566	19,505,835
Net Assets - Ending					\$ 23,145,439	\$ 8,116,301	\$ 31,261,740	\$ 21,296,739

See accompanying notes to financial statements.

County of Otsego, Michigan

Balance Sheet Governmental Funds December 31, 2007

	General	M-TEC	Housing Commission	Airport Construction	Revenue Sharing Reserve	Public Improvement	Library	Other Governmental Funds	Total Governmental Funds
ASSETS:									
Cash & Equivalents - Unrestricted	\$ 116,809	\$ 33,435	\$ 168,597	\$ 60,755	\$ 3,093,993	\$ 810,803	\$ 244,416	\$ 2,847,587	\$ 7,376,395
Investments	422,797	-	-	43,156	-	150,000	507,945	1,543,560	2,667,458
Receivables:									
Taxes	438,944	791,940	-	-	-	-	429,015	672,885	2,332,784
Accounts	24,957	-	-	20,000	-	26,846	-	98,254	170,057
Loans	-	-	1,447,708	-	-	-	-	-	1,447,708
Due from Other Funds	-	-	-	-	-	156,413	-	15,199	171,612
Advance to Component Units	18,318	-	-	-	-	-	-	-	18,318
Due from Governmental Units	185,834	-	-	-	-	-	-	74,330	260,164
Inventories	11,169	-	-	-	-	-	-	15,310	26,479
Prepaid Expenditures	10,500	-	-	-	-	-	-	-	10,500
Long-Term Advances to:									
Other Funds - Primary Government	-	-	-	-	-	26,704	-	-	26,704
Other Funds - Component Units	-	-	-	-	-	177,886	-	-	177,886
TOTAL ASSETS	\$ 1,229,328	\$ 825,375	\$ 1,616,305	\$ 123,911	\$ 3,093,993	\$ 1,348,652	\$ 1,181,376	\$ 5,267,125	\$ 14,686,065
LIABILITIES:									
Due to Other Funds	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ 193,257	\$ 193,257
Accounts Payable	164,565	-	1,100	73,268	-	-	15,272	269,096	523,301
Due to Governmental Units	-	-	-	-	-	-	-	22,253	22,253
Accrued Liabilities	52,881	-	269	-	-	-	-	59,244	112,394
Other Liabilities	123,579	-	-	-	-	-	-	-	123,579
Deferred Revenue	34,313	791,940	1,447,708	-	-	-	429,015	678,110	3,381,086
TOTAL LIABILITIES	375,338	791,940	1,449,077	73,268	-	-	444,287	1,221,960	4,355,870
FUND BALANCES:									
Reserved for Motorcycle Safety Grant	4,669	-	-	-	-	-	-	-	4,669
Reserved for Family Counseling	46,070	-	-	-	-	-	-	-	46,070
Reserved for Inventory	11,169	-	-	-	-	-	-	15,310	26,479
Reserved for Schneider Trust	-	-	-	-	-	-	-	52,712	52,712
Reserved for Debt Service	-	-	-	-	-	-	-	88,749	88,749
Reserved for Capital Projects/Improvements	-	33,435	-	-	-	1,348,652	-	1,178,449	2,560,536
Reserved for Housing Projects	-	-	167,228	-	-	-	-	-	167,228
Reserved for Revenue Sharing Reserve	-	-	-	-	3,093,993	-	-	-	3,093,993
Reserved for Special Revenue Programs	-	-	-	-	-	-	737,089	2,699,502	3,436,591
Unreserved:									
Undesignated	792,082	-	-	50,643	-	-	-	-	842,725
Designated	-	-	-	-	-	-	-	10,443	10,443
TOTAL FUND BALANCES	853,990	33,435	167,228	50,643	3,093,993	1,348,652	737,089	4,045,165	10,330,195
TOTAL LIABILITIES AND FUND BALANCES	\$ 1,229,328	\$ 825,375	\$ 1,616,305	\$ 123,911	\$ 3,093,993	\$ 1,348,652	\$ 1,181,376	\$ 5,267,125	
Reconciliation to amounts reported for governmental activities in the statement of net assets:									
Capital assets used by governmental activities									13,847,407
Long term notes & leases payable for governmental activities									(3,070,000)
Compensated absences liability									(113,277)
Deferred revenue recognized as current revenue									1,447,708
Internal Service Funds									737,842
Accrued Interest Expense									(34,436)
Net assets of governmental activities									\$ 23,145,439

See accompanying notes to financial statements.

County of Otsego, Michigan

Statement of Revenues, Expenditures, and Changes in Fund Balance - Governmental Funds For the Year Ended December 31, 2007

	General	M-TEC	Housing Commission	Airport Construction	Revenue Sharing Reserve	Public Improvement	Library	Other Governmental Funds	Total Governmental Funds
REVENUES:									
Taxes and Penalties	\$ 5,160,065	\$ 778,954	\$ -	\$ -	\$ -	\$ -	\$ 421,559	\$ 1,817,178	\$ 8,177,756
Licenses & Permits	32,624	-	-	-	-	-	-	-	32,624
Federal Sources	382,018	-	-	1,481,459	-	-	-	178,050	2,041,527
State Sources	820,051	-	-	38,507	-	-	38,339	269,456	1,166,353
Local Sources	16,075	-	6,599	58,507	-	-	-	-	81,181
Charges for Services	1,237,683	-	-	-	-	-	6,192	2,536,268	3,780,143
Fines & Forfeits	29,801	-	-	-	-	-	165,937	-	195,738
Interest & Rentals	327,532	-	3,931	8,032	121,157	57,304	51,847	376,586	946,389
Other Revenue	182,030	-	175,562	39,415	-	6,091	1,925	580,162	985,185
TOTAL REVENUES	8,187,879	778,954	186,092	1,625,920	121,157	63,395	685,799	5,757,700	17,406,896
EXPENDITURES:									
Legislative	198,632	-	-	-	-	-	-	-	198,632
Judicial	1,778,627	-	-	-	-	-	-	84,118	1,862,745
General Government	2,133,152	-	-	-	-	-	-	172,599	2,305,751
Public Safety	1,724,558	-	-	-	-	-	-	1,521,166	3,245,724
Public Works	3,550	-	-	-	-	-	-	1,261,139	1,264,689
Health & Welfare	440,825	-	-	-	-	-	-	1,936,928	2,377,753
Community/Economic Development	56,267	745,562	155,263	-	-	-	-	-	957,092
Recreation and Culture	-	-	-	-	-	-	606,340	525,908	1,132,248
Other Expenditures	448,133	-	-	-	-	-	-	-	448,133
Capital Outlay	-	-	-	1,678,602	-	-	-	406,373	2,084,975
Debt Service	-	-	-	-	-	-	-	394,715	394,715
TOTAL EXPENDITURES	6,783,744	745,562	155,263	1,678,602	-	-	606,340	6,302,946	16,272,457
EXCESS (DEFICIENCY) OF REVENUES OVER EXPENDITURES	1,404,135	33,392	30,829	(52,682)	121,157	63,395	79,459	(545,246)	1,134,439
OTHER FINANCING SOURCES (USES):									
Operating Transfers In	435,608	-	1,688	-	-	-	-	1,686,790	2,124,086
Operating Transfers Out	(1,441,378)	-	-	-	(423,308)	-	-	(17,900)	(1,882,586)
EXCESS (DEFICIENCY) OF REVENUES AND OTHER FINANCING SOURCES OVER EXPENDITURES AND OTHER FINANCING USES	398,365	33,392	32,517	(52,682)	(302,151)	63,395	79,459	1,123,644	1,375,939
FUND BALANCES, JANUARY 1	455,625	43	134,711	103,325	3,396,144	1,440,485	657,630	2,766,293	8,954,256
Prior Period Adjustment	-	-	-	-	-	(155,228)	-	155,228	-
FUND BALANCES, DECEMBER 31	\$ 853,990	\$ 33,435	\$ 167,228	\$ 50,643	\$ 3,093,993	\$ 1,348,652	\$ 737,089	\$ 4,045,165	\$ 10,330,195

See accompanying notes to financial statements.

**Reconciliation of the Statement of Revenues, Expenditures,
and Changes in Fund Balances of Governmental Funds
to the Statement of Activities
For the Year Ended December 31, 2007**

Net Changes in fund balances - total governmental funds \$ 1,375,939

The change in net assets reported for governmental activities in the statement of activities is different because:

Governmental funds reported capital outlays as expenditures. However, in the statement of activities the cost of those assets is capitalized and the cost of those assets is allocated over their estimated useful lives and reported as depreciation expense. This is the amount by which capital outlay (\$1,733,534) exceeded depreciation (\$952,509). 781,025

Revenues earned but not available for current resources are not reported in the funds.
Housing Commission - Loans increased during 2007 (107,748)

Repayment of principal is an expenditure in the governmental funds but reduces the liability in the statement of net assets.

Principal repayments:
Bonds Payable 215,000

Under the modified accrual basis of accounting used in governmental funds, expenditures are not recognized for transactions that are not normally paid with expendable available financial resources. In the statement of activities, however, which is presented on the accrual basis, expenses and liabilities are reported regardless of when financial resources are available. In addition, interest on long-term debt is not recognized under the modified accrual basis of accounting until due, rather than as it accrues. This adjustment combines the following net changes:

Compensated absences 5,705
Accrued interest expense 2,712

Internal service fund activity 199,571

Changes in net assets of governmental activities \$ 2,472,204

County of Otsego, Michigan

Statement of Net Assets Proprietary Funds December 31, 2007

	Business-Type Activities - Enterprise Funds				Governmental Activities
	Major				
	Delinquent Tax Fund	9/30/2007 Public Transit	Non-Major Enterprise Funds	Total Enterprise Funds	Internal Service Funds
ASSETS:					
Current Assets					
Cash and Equivalents	\$ 2,271,085	\$ 210,679	\$ 176,771	\$ 2,658,535	\$ 227,990
Investments	1,830,537	-	-	1,830,537	500,000
Taxes Receivable	2,195,007	-	-	2,195,007	-
Interest Receivable	353,948	-	-	353,948	-
Accounts Receivable	1,355	8,114	-	9,469	7,028
Due from Governmental Units	82,071	61,168	-	143,239	1,519
Due from Other Funds	21,645	-	-	21,645	-
Prepaid Expense	-	-	-	-	53,560
Inventory	-	-	-	-	325
Total Current Assets	<u>6,755,648</u>	<u>279,961</u>	<u>176,771</u>	<u>7,212,380</u>	<u>790,422</u>
Noncurrent Assets					
Capital Assets, Not Depreciation	-	99,998	-	99,998	-
Capital Assets, Net of Accumulated Depreciation	-	800,451	196,777	997,228	-
Total Noncurrent Assets	<u>-</u>	<u>900,449</u>	<u>196,777</u>	<u>1,097,226</u>	<u>-</u>
TOTAL ASSETS	<u>\$ 6,755,648</u>	<u>\$ 1,180,410</u>	<u>\$ 373,548</u>	<u>\$ 8,309,606</u>	<u>\$ 790,422</u>
LIABILITIES:					
Current Liabilities					
Accounts Payable	\$ 5,679	\$ 19,346	\$ 11,140	\$ 36,165	\$ 49,704
Accrued Liabilities	827	35,555	348	36,730	2,876
Due to State	-	32,280	-	32,280	-
Installment Purchase Agreement	-	9,470	-	9,470	-
Other Liabilities	10,946	25,208	-	36,154	-
Total Current Liabilities	<u>17,452</u>	<u>121,859</u>	<u>11,488</u>	<u>150,799</u>	<u>52,580</u>
Noncurrent Liabilities					
Installment Purchase Agreement	-	15,802	-	15,802	-
Long-term Advance from Other Funds	-	26,704	-	26,704	-
Total Noncurrent Liabilities	<u>-</u>	<u>42,506</u>	<u>-</u>	<u>42,506</u>	<u>-</u>
TOTAL LIABILITIES	<u>17,452</u>	<u>164,365</u>	<u>11,488</u>	<u>193,305</u>	<u>52,580</u>
NET ASSETS:					
Invested in Capital Assets - Net of Related Debt	-	848,473	196,777	1,045,250	-
Unrestricted	<u>6,738,196</u>	<u>167,572</u>	<u>165,283</u>	<u>7,071,051</u>	<u>737,842</u>
TOTAL NET ASSETS	<u>\$ 6,738,196</u>	<u>\$ 1,016,045</u>	<u>\$ 362,060</u>	<u>\$ 8,116,301</u>	<u>\$ 737,842</u>

County of Otsego, Michigan

Statement of Revenues, Expenses, and Changes in Net Assets - Proprietary Funds For the Year Ended December 31, 2007

	Business-Type Activities - Enterprise Funds				Governmental Activities
	Major				
	Delinquent Tax Fund	9/30/2007 Public Transit	Non-Major Enterprise Funds	Total Enterprise Funds	Internal Service Funds
OPERATING REVENUES:					
Local Sources	\$ -	\$ -	\$ 6,500	\$ 6,500	\$ -
Charges for Services	271,977	353,813	134,936	760,726	1,021,257
Interest on Delinquent Taxes	453,707	-	-	453,707	-
Other Revenues	6,070	-	-	6,070	1,259,650
TOTAL REVENUES	731,754	353,813	141,436	1,227,003	2,280,907
OPERATING EXPENSES:					
Salaries, Wages, and Fringe Benefits	49,868	1,107,896	15,795	1,173,559	500,889
Contractual Services	67,965	-	51,621	119,586	26,404
Materials and Supplies	3,000	-	50,776	53,776	11,585
Equipment Repair and Maintenance	-	-	-	-	65,434
Utilities	-	-	-	-	238,875
Depreciation	-	119,564	12,297	131,861	-
Other Expenses	12,735	435,860	1,534	450,129	1,268,379
TOTAL EXPENSES	133,568	1,663,320	132,023	1,928,911	2,111,566
OPERATING INCOME (LOSS)	598,186	(1,309,507)	9,413	(701,908)	169,341
NON-OPERATING REVENUES (EXPENSES):					
State Operating Grants	-	632,099	-	632,099	-
Federal Operating Grants	-	264,350	-	264,350	-
Interest Earned on Investments	7,599	7,404	2,645	17,648	30,230
Contributions from Other Units	-	939	-	939	-
Property Taxes Levied	-	291,281	-	291,281	-
Unrealized Gain (Loss) on Investments	(83,296)	-	-	(83,296)	-
Other	-	54,857	-	54,857	-
TOTAL NONOPERATING REVENUES(EXPENSES)	(75,697)	1,250,930	2,645	1,177,878	30,230
INCOME(LOSS) BEFORE CONTRIBUTIONS AND TRANSFERS	522,489	(58,577)	12,058	475,970	199,571
INTERFUND TRANSFERS:					
Operating Transfers In	-	-	9,000	9,000	-
CHANGES IN NET ASSETS	522,489	(58,577)	21,058	484,970	199,571
NET ASSETS, JANUARY 1	6,215,707	1,074,622	341,002	7,631,331	538,271
NET ASSETS, DECEMBER 31	\$ 6,738,196	\$ 1,016,045	\$ 362,060	\$ 8,116,301	\$ 737,842

County of Otsego, Michigan

Statement of Cash Flows Proprietary Funds For the Year Ended December 31, 2007

	Business-Type Activities - Enterprise Funds				Governmental Activities
	Major				
	Delinquent Tax Fund	9/30/2007 Public Transit	Non-Major Enterprise Funds	Total Enterprise Funds	Internal Service Funds
CASH FLOWS FROM OPERATING ACTIVITIES:					
Receipts from Customers	\$ 276,286	\$ 378,181	\$ 141,436	\$ 795,903	\$ 1,389,209
Interest on Delinquent Taxes	304,169	-	-	304,169	-
Delinquent Taxes Purchased	(3,237,811)	-	-	(3,237,811)	-
Delinquent Taxes Collected	2,820,967	-	-	2,820,967	-
Payments to Suppliers	(88,223)	(442,010)	(120,737)	(650,970)	(1,262,064)
Payments to Employees for Services and Benefits	(49,793)	(1,119,209)	-	(1,169,002)	(501,652)
Internal Activity - Receipts (Payments) to Other Funds	33,355	-	-	33,355	495,158
Net Cash Provided (Used) by Operating Activities	58,950	(1,183,038)	20,699	(1,103,389)	120,651
CASH FLOWS FROM NONCAPITAL AND RELATED FINANCING ACTIVITIES:					
State Grants	-	612,458	-	612,458	-
Federal Grants	-	264,350	-	264,350	-
State and Federal Grants - Prior Year Adjustments	-	19,641	-	19,641	-
Property Tax	-	291,281	-	291,281	-
Contributions from Other Units	-	126,303	-	126,303	-
Other	-	54,857	-	54,857	-
Operating Transfers In	-	-	9,000	9,000	-
Net Cash Provided (Used) by Noncapital and Related Financing Activities	-	1,368,890	9,000	1,377,890	-
CASH FLOWS FROM CAPITAL AND RELATED FINANCING ACTIVITIES:					
Repayment of Note Principal & Interest	-	(8,937)	-	(8,937)	-
Capital Assets Purchased with Transit Corporation Money	-	(25,887)	-	(25,887)	-
Net Cash Provided (Used) by Capital and Related Financing Activities	-	(34,824)	-	(34,824)	-
CASH FLOWS FROM INVESTING ACTIVITIES:					
Net Sale or (Purchase) of Investments	445,312	-	-	445,312	15,689
Interest Earnings	7,599	7,404	2,645	17,648	30,230
Net Cash Provided (Used) by Investing Activities	452,911	7,404	2,645	462,960	45,919
Net Increase (Decrease) in Cash and Equivalents	511,861	158,432	32,344	702,637	166,570
Balances - Beginning of the Year	1,759,224	52,247	144,427	1,955,898	61,420
Balances - End of the Year	\$ 2,271,085	\$ 210,679	\$ 176,771	\$ 2,658,535	\$ 227,990
Reconciliation of Operating Income (Loss) to Net Cash Provided (Used) by Operating Activities:					
Operating Income (Loss)	\$ 598,186	\$ (1,309,507)	\$ 9,413	\$ (701,908)	\$ 169,341
Adjustments to Reconcile Operating Income (Loss) to Net Cash Provided (Used) by Operating Activities:					
Depreciation Expense	-	119,564	12,297	131,861	-
Change in Assets and Liabilities:					
Taxes Receivable	(416,844)	-	-	(416,844)	-
Accrued Interest Receivable	(149,538)	-	-	(149,538)	-
Accounts Receivable	(1,355)	24,368	-	23,013	11,061
Due from Other Governmental Units	(406)	-	-	(406)	1,538
Prepaid Expense	-	-	-	-	(53,560)
Due from Other Funds	33,355	-	-	33,355	-
Accounts Payable	(4,523)	(6,150)	(1,359)	(12,032)	2,349
Accrued Liabilities	146	(11,313)	348	(10,819)	(763)
Other Liabilities	(71)	-	-	(71)	-
Deferred Revenue	-	-	-	-	(9,315)
Net Cash Provided (Used) by Operating Activities	\$ 58,950	\$ (1,183,038)	\$ 20,699	\$ (1,103,389)	\$ 120,651

See accompanying notes to financial statements.

Statement of Fiduciary Net Assets
Fiduciary Funds
December 31, 2007

	Agency Funds	Other Post Employment Trust Fund
ASSETS:		
Cash and Equivalents	\$ 1,192,769	\$ -
TOTAL ASSETS	<u>\$ 1,192,769</u>	<u>\$ -</u>
LIABILITIES:		
Accounts Payable	\$ 44,754	\$ -
Undistributed Receipts	234,772	-
Undistributed Tax Collections	854,308	-
Bonds, Restitutions and Payable's to Others	<u>58,935</u>	<u>-</u>
TOTAL LIABILITIES	<u>\$ 1,192,769</u>	<u>-</u>
NET ASSETS:		
Net Assets Held in Trust		<u>\$ -</u>

**Statement of Changes in
Fiduciary Net Assets
Fiduciary Fund
For the Year Ended December 31, 2007**

	Private Purpose Employee Retirement
ADDITIONS:	
Contributions:	
Employer	\$ -
Total Contributions	-
Investment Income:	
Interest	10,851
Total Investment Income	10,851
Total Additions	10,851
DEDUCTIONS:	
Benefits	443,601
Total Deductions	443,601
Changes in Net Assets	(432,750)
Net Assets - Beginning of the Year	432,750
Net Assets - End of the Year	\$ -

Component Units

County of Otsego, Michigan

Statement of Net Assets Component Units December 31, 2007

	Road Commission	Ambulance Corporation	University Center	Sportsplex	Totals
ASSETS:					
Current Assets					
Cash and Equivalents	\$ 358,620	\$ 37,637	\$ 347,363	\$ 306,034	\$ 1,049,654
Investments	880,067	25,000	300,000	250,000	1,455,067
Receivables					
Taxes	-	490,055	682,752	310,387	1,483,194
Accounts	3,550	343,000	20,161	40,752	407,463
Due from Governmental Units	898,206	-	-	-	898,206
Inventories	513,083	-	-	36,897	549,980
Total Current Assets	2,653,526	895,692	1,350,276	944,070	5,843,564
Noncurrent Assets					
Capital Assets (Not Depreciated)	170,157	-	-	-	170,157
Capital Assets (Net of Accumulated Depreciation)	17,145,510	675,965	129,372	-	17,950,847
Total Noncurrent Assets	17,315,667	675,965	129,372	-	18,121,004
TOTAL ASSETS	\$ 19,969,193	\$ 1,571,657	\$ 1,479,648	\$ 944,070	\$ 23,964,568
LIABILITIES:					
Current Liabilities:					
Accounts Payable	\$ 32,797	\$ 34,313	\$ 28,138	\$ 14,535	\$ 109,783
Accrued Liabilities	97,817	33,060	25,834	1,929	158,640
Due to Governmental Units	84,510	-	-	-	84,510
Advance from Primary Government	-	5,969	-	12,349	18,318
Advance from State	302,076	-	-	-	302,076
Deferred Revenue	-	490,055	682,752	362,620	1,535,427
Other Liabilities	-	1,096	9,333	44,871	55,300
Capital Leases	-	37,606	-	-	37,606
Installment Purchase Agreement	61,242	-	-	-	61,242
Total Current Liabilities	578,442	602,099	746,057	436,304	2,362,902
Noncurrent Liabilities:					
Long-term Advance from Primary Government	-	177,886	-	-	177,886
Capital Leases	-	17,261	-	-	17,261
Installment Purchase Agreement	10,703	-	-	-	10,703
Vested Employee Benefits	99,077	-	-	-	99,077
Total Noncurrent Liabilities	109,780	195,147	-	-	304,927
TOTAL LIABILITIES	688,222	797,246	746,057	436,304	2,667,829
NET ASSETS:					
Invested in Capital Assets, net of related debt	17,243,722	621,098	129,372	-	17,994,192
Restricted for County Road	2,037,249	-	-	-	2,037,249
Restricted for Ambulance and Emergency Services	-	153,313	-	-	153,313
Restricted for Sportsplex	-	-	-	507,766	507,766
Restricted for University Center	-	-	604,219	-	604,219
TOTAL NET ASSETS	\$ 19,280,971	\$ 774,411	\$ 733,591	\$ 507,766	\$ 21,296,739

See accompanying notes to financial statements.

County of Otsego, Michigan

Statement of Activities Component Units For the Year Ended December 31, 2007

Functions/Programs	Expenses	Program Revenues			Net (Expense) Revenue and Changes in Net Assets				
		Charges for Services	Operating Grants and Contributions	Capital Grants and Contributions	Road Commission	Ambulance Corporation	University Center	Sportsplex	Total
Road Commission:									
Public Works	\$ 5,607,962	\$ 1,043,107	\$ 6,156,435	\$ -	\$ 1,591,580	\$ -	\$ -	\$ -	\$ 1,591,580
Ambulance Corporation:									
Health & Welfare	1,611,900	1,232,110	-	-	-	(379,790)	-	-	(379,790)
University Center:									
Recreation and Culture	614,613	-	227,442	-	-	-	(387,171)	-	(387,171)
Sportsplex:									
Recreation and Culture	1,237,517	726,380	-	-	-	-	-	(511,137)	(511,137)
Total Component Units	<u>\$ 9,071,992</u>	<u>\$ 3,001,597</u>	<u>\$ 6,383,877</u>	<u>\$ -</u>	<u>1,591,580</u>	<u>(379,790)</u>	<u>(387,171)</u>	<u>(511,137)</u>	<u>313,482</u>
General Revenues and Transfers:									
Property Tax					-	479,608	667,920	332,915	1,480,443
Investment Earnings					126,714	6,993	26,789	21,446	181,942
Other					2,139	2,270	55,164	5,964	65,537
Operating Transfers					-	-	(250,500)	-	(250,500)
Total General Revenues and Transfers					<u>128,853</u>	<u>488,871</u>	<u>499,373</u>	<u>360,325</u>	<u>1,477,422</u>
Changes in Net Assets					<u>1,720,433</u>	<u>109,081</u>	<u>112,202</u>	<u>(150,812)</u>	<u>1,790,904</u>
Net Assets - Beginning					<u>17,560,538</u>	<u>665,330</u>	<u>621,389</u>	<u>658,578</u>	<u>19,505,835</u>
Net Assets - Ending					<u>\$ 19,280,971</u>	<u>\$ 774,411</u>	<u>\$ 733,591</u>	<u>\$ 507,766</u>	<u>\$ 21,296,739</u>

See accompanying notes to financial statements.

Notes to Financial Statements

NOTE 1 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

Otsego County was organized in 1840 and covers an area of approximately 527 square miles divided into nine townships, one village, and one city. The county seat is located in the City of Gaylord. The County of Otsego operates under an elected board of commissioners (nine members) with an appointed county coordinator who assists with day-to-day operations. The County of Otsego provides services to its more than 23,300 residents in many areas including law enforcement, administration of justice, community enrichment, and development, and human services.

The accounting policies of the County of Otsego conform to accounting principles generally accepted in the United States of America (GAAP) as applicable to governmental units. The following is a summary of the significant accounting policies used by Otsego County.

A – Reporting Entity:

The accompanying financial statements present the government and its component units; entities for which the government is considered to be financially accountable. Although blended component units are legally separate entities, in substance, they are part of the government's operations. The criteria established by the Governmental Accounting Standards Board (GASB) for determining the reporting entity includes oversight responsibility, fiscal dependency and whether the financial statements would be misleading, if data were not included. The component unit total is reported in a separate column in the government-wide financial statements to emphasize that it is legally separate from the government (see discussion below for description of each component unit). Each discretely presented component unit is reported separately in the financial statements.

Blended Component Units

Building Authority – The Otsego County Building Authority is governed by a three member board appointed by the county board of commissioners. Although it is legally separate from the County, the Building Authority is reported as if it were part of the primary government because its sole purpose is to finance and construct the County's public buildings. The financial statements of the Otsego County Building Authority are reported in the County's Debt Service Fund and Capital Projects Fund as presented in this report.

Bus System – The Otsego County Bus System is not legally separate but is administered by a three member standing committee of the county board of commissioners. The Bus System Committee may not issue debt and the tax levy is subject to county board of commissioners' approval. The Bus System taxes are levied under the taxing authority of the County, as approved by the county electors, and is included as part of the County's total tax levy as well as reported in the Bus System Fund.

NOTE 1 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

Commission on Aging – The Otsego County Commission on Aging (Commission) is not legally separate, but is administered by an advisory board of directors (board) with twelve members. Members of the board are selected by the County from nine districts and an additional three at-large members. The Commission may not issue debt and the tax levy is subject to county board of commissioners' approval. The Commission's taxes are levied under the taxing authority of the County, as approved by the county electors, and is included as part of the County's total tax levy as well as reported in the Commission on Aging Fund.

Discretely Presented Component Units

County Road Commission – The Otsego County Road Commission which is established pursuant to the County Road Law (MCL 224.1) is governed by a three member board of county road commissioners elected biannually to serve a six year term. The Road Commission may not issue debt without the County's approval and the tax levy is subject to county board of commissioners' approval. If approval is granted, Road Commission taxes are levied under the taxing authority of the County, as approved by the county electors, and would be included as part of the County's total tax levy as well as reported in the County Road Fund.

Otsego County Sportsplex – The Otsego County Sportsplex, a nonprofit corporation that was established pursuant to the provisions of Public Act 162 of 1982, has an agreement with the County of Otsego to operate and maintain a recreational and sports complex for Otsego County. The sports complex was constructed during 1995 and opened in early 1996. The Sportsplex is operated by a board of directors, which consist of between seven to fifteen members. Members are elected by the affirmative vote of a majority of the directors. The Sportsplex may not issue debt without the County's approval and the tax levy is subject to county board of commissioners' approval. The Sportsplex taxes are levied under the taxing authority of the County, as approved by the County electors and are included as part of the County's total tax levy recorded in the County's Sportsplex Fund. The county board of commissioners also approves the budget and fee charges. Although this is a nonprofit corporation, the activities fit the description of a governmental special revenue fund type and, accordingly, are reported as a special revenue fund in this report.

Otsego County Ambulance Corporation, Inc. – The Otsego County Ambulance Corporation, Inc., a nonprofit corporation which was established pursuant to the provisions of Public Act 327 of 1931, as amended, and Public Act 284 of 1972, has an agreement with the County of Otsego to provide ambulance service in and about the County of Otsego. A nine member board governs the Ambulance Corporation. The Ambulance Corporation may not issue debt without the County's approval and a tax levy is subject to county board of commissioners' approval. If approval is granted, the Ambulance's taxes are levied under the taxing authority of the County, as approved by the county electors, and would be included as part of the County's total tax levy as well as in the Ambulance Fund. All assets are in the name of the County. The activities fit the description of a governmental special revenue fund type and, accordingly, are reported as a special revenue fund in this report.

NOTE 1 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

Otsego County University Center – On December 7, 1999, the electors of the County of Otsego authorized the County Board of Commissioners to levy a tax not to exceed .56 mills (\$.56 per \$1,000) for a period of 20 years to provide the funds required to acquire or construct, furnish, equip and operate the Otsego County University Center (the facility) for use by the residents of the County and the public. On July 1, 2000, the County of Otsego entered into an agreement for operating and maintaining the facility with The University Center at Gaylord (University Center), a Michigan nonprofit corporation organized on November 3, 1989 pursuant to the provisions of Act 162, Public Acts of 1982, as amended. The University Center is governed by an eleven member board of directors whose mission is to facilitate the delivery of quality, state-of-the-art education and training that is responsive to personal growth and business needs throughout Otsego County and Northern Michigan through a consortium of colleges offering degrees, enrichment and skill certification programs. The agreement, which expires December 31, 2020 unless amended, requires the University Center to submit by July 1st annually a proposed budget for the operation of the facility for the subsequent fiscal year beginning January 1st. Prior to September 1st each year, the county board of commissioners shall either approve the final budget as submitted for the operation of the facility or reject the budget setting forth reasons why it was not approved. Once approved, the county board of commissioners shall approve a resolution authorizing the levy of such amount of the millage. The facility's taxes are levied under the taxing authority of the County and are included as part of the County's total tax levy reported in the Otsego County University Center Fund.

Complete financial statements of the individual component units can be obtained from their respective administrative offices or from the County Clerk's Office at the courthouse.

Administrative Offices

Otsego County Bus System
1254 Energy Drive
Gaylord, Michigan 49735

Otsego County Sportsplex
1250 Gornick Avenue
Gaylord, Michigan 49735

Otsego County Road Commission
Industrial Park, P.O. Box 537
Gaylord, Michigan 49735

Otsego County University Center
80 Livingston Boulevard
Gaylord, Michigan 49735

Otsego County Ambulance Corporation, Inc.
100 McLouth, P.O. Box 642
Gaylord, Michigan 49735

NOTE 1 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

Northwest Michigan Community Health Agency – Northwest Michigan Community Health Agency provides health service for Otsego County. The counties of Otsego, Antrim, Emmet, and Charlevoix jointly established the agency. The financial operations of the Health Agency are recorded in the records of Charlevoix County. The funding formula approved by the member counties is based pro rata on each unit's population and equalized valuation to the district's total population and valuation. Member counties' percentages of the net operation budget for the year 2007 were:

Otsego	22.4 percent	Antrim	22.2 percent
Charlevoix	25.1 percent	Emmet	30.3 percent

Otsego County's appropriation and cigarette tax to the Health Agency for the year was \$166,562.

Michigan Technical Education Center (M-TEC) – Kirtland Community College, a community college district established pursuant to the provisions of Public Act 331 of 1996, obtained funding through the Michigan Economic Development Corporation (MEDC) to construct and equip the Michigan Technical Center (M-TEC), and educational facility in the County of Otsego. On December 7, 1999, the electors of the County authorized a tax levy not to exceed .65 mills for a period of twenty years for the purpose of generating funds to operate the facility. The facility provides vocational, technical, job skills, or workforce development programs and services. Pursuant to the operating agreement, Kirtland established an advisory board (which includes representatives of the county) and is to report its preliminary, final and amended M-TEC budgets to the County's board. Financial records for M-TEC are recorded and maintained by the Kirtland Community College and audited separately. Otsego County's tax revenues amounted to \$8,177,756 for which Otsego appropriated \$745,562 to Kirtland Community College.

The Michigan Technical Education Center (M-TEC) is used in conjunction with and occupied by the University Center established and operated by the University Center of Gaylord, a non-profit corporation.

North Country Community Mental Health – The North Country Community Mental Health consists of the counties of Antrim, Charlevoix, Cheboygan, Emmet, Kalkaska, and Otsego. Financial records for the board are recorded and maintained by the mental health and audited separately.

The funding formula for the community mental health operations and services is in accordance with an agreement approved by each county. The current agreement provides that each county will pay at an agreed upon rate. The 2007 local match for Otsego County was \$94,003.

Fiscal Year End Other Than December 31, 2007

The financial information presented in this report is for the year ended December 31, 2007, except for the following funds:

<u>Fund</u>	<u>Fund Presentation</u>	<u>Fiscal Year End</u>
Commission on Aging	Blended – Special Revenue Fund	September 30, 2007
Bus System	Blended – Enterprise Fund	September 30, 2007

NOTE 1 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)**B – Government-Wide and Fund Financial Statements:**

The government-wide financial statements (i.e., the statement of net assets and the statement of activities) report information on all of the nonfiduciary activities of the primary government and its component units. For the most part, the effect of interfund activity has been removed from these statements. Governmental activities, normally supported by taxes and intergovernmental revenues, are reported separately from business-type activities which rely to a significant extent on fees and charges for support. Likewise, the primary government is reported separately from certain legally separate component units for which the primary government is financially accountable.

The statement of activities demonstrates the degree to which the direct expenses of a given function or segment, are offset by program revenues. Direct expenses are those that are clearly identifiable with a specific function or segment. Program revenues include: (1) charges to customers or applicants who purchase, use, or directly benefit from goods, services, or privileges provided by a given function or segment; and (2) grants and contributions that are restricted to meeting the operational or capital requirements of a particular function or segment. Taxes and other items not properly included among program revenues are reported instead as general revenue.

Separate financial statements are provided for governmental funds, proprietary funds and fiduciary funds, even though the latter are excluded from the government-wide financial statements. Major individual governmental funds and major individual enterprise funds are reported as separate columns in the fund financial statements. When both restricted and unrestricted resources are available for use, it is the County's policy to use restricted resources first, then unrestricted resources as needed.

C – Measurement Focus, Basis of Accounting and Financial Statement Presentation:

The government-wide financial statements are reported using the economic resources measurement focus and the accrual basis of accounting, as are the proprietary fund and fiduciary fund financial statements. Revenue is recorded when earned and expenses are recorded when a liability is incurred, regardless of the timing of related cash flows. Property taxes are recognized as revenue in the year for which they are levied. Grants and similar items are recognized as revenue as soon as all eligibility requirements imposed by the provider have been met.

Governmental fund financial statements are reported using the current financial resources measurement focus and the modified accrual basis of accounting. Revenue is recognized as soon as it is both measurable and available. Revenue is considered to be available if it is collected within the current period or soon enough thereafter to pay liabilities of the current period. For this purpose, the government considers revenues to be available if they are collected within 60 days of the end of the current fiscal period. Expenditures generally are recorded when a liability is incurred, as under accrual accounting. However, debt service expenditures, expenditures relating to compensated absences, and claims and judgments are recorded only when payment is due.

NOTE 1 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)**Taxes Receivable – Current or Property Taxes**

The County of Otsego property tax is levied on each December 1st and July 1st on the taxable valuation of property (as defined by State statutes) located in the County of Otsego as of the preceding December 31st.

Although the County of Otsego 2006 ad valorem tax is levied and collectible on December 1, 2006 and the 2007 ad valorem tax is levied and collectible on July 1, 2007, it is the County of Otsego's policy to recognize revenue from the current tax levy in the current year when the proceeds of this levy are budgeted and made "available" for the financing of operations. "Available" means collected within the current period or expected to be paid from the delinquent tax fund within one year.

The 2006 taxable valuation of Otsego County amounted to \$1,178,509,814 on which ad valorem taxes of 1.3501 mills were levied for the County Operating purposes, .3000 mills for Animal Control, 1.000 mill for Commission on Aging, .1875 mills for Community Center, .0625 mills for County Parks, .2500 for the Bus System, .3500 mills for Library, .4000 for Ambulance, .6464 for M-TEC, .5569 for the University Center, and .2500 for Sportsplex Operating.

The 2006 current tax levied included \$1,591,106 for County Operations, \$353,553 for Animal Control, \$1,178,510 for Commission on Aging, \$220,970 for Community Center, \$73,657 for County Parks, \$294,627 for the Bus System, \$412,478 for the Library, \$471,404 for the Ambulance, \$761,789 for M-TEC, \$656,312 for the University Center, and \$294,627 for Sportsplex Operating. These taxes will be recorded as revenue on County records in and for the year of 2007. An amount equal to 1/3 of the General Fund 2004 levy collected from the winter tax collection was recognized in the Revenue Sharing Reserve Fund. The July 1, 2007 taxable valuation of the County of Otsego totaled \$1,228,642,292 on which ad valorem taxes levied consisted of 4.0502 mills for the General Fund. This amount is recognized as revenue in the General Fund.

The taxes receivable is recorded in the financial statements as taxes receivable-current, with an offsetting credit to deferred revenue based on the 2007 taxable valuation. The Commission on Aging Fund and the Bus System financial statements are for the fiscal year ended September 30, 2007 and accordingly, do not reflect taxes receivable and deferred revenue. Tax receivables are recorded in the General Fund for the summer taxes not collected at year end. The corresponding revenue is recorded as tax revenue.

All other revenue items are considered to be available only when cash is received by the government.

The County reports the following major governmental funds:

General Fund

This is the County's primary operating fund. It accounts for all financial resources of the general government, except those required to be accounted for in another fund.

NOTE 1 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)**Revenue Sharing Reserve Fund**

This Fund accounts for restricted funds that are limited to amounts previously reported as state revenue sharing distributed annually, which can be used to fund governmental operations.

M-Tech

This Fund accounts for the collection and disbursement of a tax levy to operate the Michigan Technical Center (M-Tech), an educational facility.

Housing Commission

This Fund accounts for grant revenue and contributions reserved for the improvement of housing within the County.

Public Improvement

This Fund accounts for earmarked revenue set aside for statutory public improvements.

Airport Construction

This Fund is for the construction of various County airport projects.

County Library

This Fund accounts for the operation of a public library.

The County reports the following major proprietary funds:

Delinquent Tax Fund

This Fund accounts for the collection of delinquent taxes.

Public Transit

This Fund accounts for the operation of the public transit system.

Additionally, the County reports the following fund types:

Special Revenue Funds

These funds account for revenue sources that are legally restricted to expenditures for specific purposes not including major capital projects.

Debt Service Funds

These funds account for the resources accumulated and payments made for principal and interest on long-term debt of governmental funds.

NOTE 1 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)**Capital Project Fund**

These funds account for the acquisition of capital assets or construction of major capital projects not being financed by proprietary funds.

Internal Service Fund

This Fund accounts for buildings and grounds, administrative services, and employee health benefits provided to other departments or agencies of the governmental unit on a cost reimbursement basis.

Agency Funds

Agency Funds are used to account for assets held by the County as an agent for individuals, private organizations, other governments, and/or other funds. Agency Funds are custodial in nature (assets equal liabilities) and do not involve measurement of results of operations.

Private-sector standards of accounting issued prior to December 1, 1989 are generally followed in both the government-wide and proprietary fund financial statements to the extent that those standards do not conflict with the standards of the Governmental Accounting Standards Board. The government has elected not to follow private-sector standards issued after November 30, 1989 for its business-type activities.

As a general rule, the effect of interfund activity has been eliminated from the government-wide financial statements. Exceptions to this general rule are charges between the government's tax collection function and various other functions of the government. Eliminations of these charges would distort the direct costs and program revenues reported for the various functions concerned.

Amounts reported as program revenue include: (1) charges to customers or applicants for goods, services or privileges provided; (2) operating grants and contributions; and (3) capital grants and contributions, including special assessments. Internally dedicated resources are reported as general revenue rather than as program revenue. Likewise, general revenue includes all taxes.

Proprietary funds distinguish operating revenue and expenses from nonoperating items. Operating revenue and expenses generally result from providing services in connection with a proprietary fund's principal ongoing operations. The principal operating revenue of our proprietary funds relate to charges to customers for tax collections. Operating expenses for proprietary funds include the cost of sales and services, and administrative expenses. All revenue and expenses not meeting this definition are reported as nonoperating revenue and expenses.

NOTE 1 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)**D - Assets, Liabilities, and Net Assets or Equity:**

Bank Deposits and Investments – Cash and cash equivalents are considered to be cash on hand, demand deposits, and short-term investments with a maturity of three months or less when acquired. Investments are stated at fair value. Pooled investment income from all funds and is allocated to each fund based on average cash balance. Deposits are recorded at cost.

Receivables and Payables – In general, outstanding balances between funds are reported as “due to/from other funds.” Activity between funds that is representative of lending/borrowing arrangements outstanding at the end of the fiscal year is referred to as “advances to/from other funds. Any residual balances outstanding between the governmental activities and the business-type activities are reported in the government-wide financial statements as “internal balances.”

All trade and property tax receivables are shown as net of allowance for uncollectible amounts. Property taxes are levied on each December 1st and July 1st on the taxable valuation of property as of the preceding December 31st. Taxes are considered delinquent on March 1st of the following year, at which time penalties and interest are assessed.

Inventories and Prepaid Items – Inventories are valued at cost, using the consumption method. Inventories of governmental funds are recorded as expenditures when consumed rather than when purchased. Certain payments to vendors reflect costs applicable to future fiscal years and are recorded as prepaid items in both government-wide and fund financial statements.

Inventories – Primary Government

General Fund – The inventory consists of postage and supplies on hand valued at cost in the amount of \$11,169 at December 31, 2007.

Commission on Aging – \$891 of inventory was on hand at September 30, 2007.

Airport – The inventory at the airport consists of fuel on hand based on average cost with a value of \$14,419 at December 31, 2007.

Inventories – Component Units

Road Commission – Inventories amounting to \$513,083 are recognized using the consumption method (inventories are recorded as expenditures when they are used). Inventories are recorded at average cost which approximates market.

Sportsplex – Inventory consist of items in the Pro Shop with a value of \$36,897.

Accounts Receivable – Component Unit

Ambulance – The accounts receivable balance is net of allowance for doubtful accounts of \$343,000.

NOTE 1 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

Capital Assets – Capital assets, which include property, plant, equipment, and infrastructure assets (e.g., roads, bridges, sidewalks, and similar items) are reported in the applicable governmental or business-type activities column in the government-wide financial statements. Capital assets are defined by the government as assets with an initial individual cost of more than \$5,000 and an estimated useful life in excess of two years. Such assets are recorded at historical cost or estimated historical cost if purchased or constructed. Donated capital assets are recorded at estimated fair market value at the date of donation.

Property, plant, and equipment is depreciated using the straight-line method over the following useful lives:

Buildings	40 years
Bus Operating Facility	12 to 20 years
Shop Equipment	3 to 10 years
Vehicles	3 to 7 years
Office Equipment	3 to 10 years
Other Infrastructure	20 years

Depreciation on Road Commission capital assets is computed on the sum-of-the-years'-digits method for road equipment and straight-line method for all other capital assets. The depreciation rate is designed to amortize the cost of the assets over their estimated useful lives as follows:

Buildings	30 to 50 years
Road Equipment	5 to 8 years
Shop Equipment	10 years
Engineering Equipment	4 to 10 years
Office Equipment	4 to 10 years
Infrastructure – Roads	8 to 30 years
Infrastructure – Bridges	12 to 50 years

Compensated Absences (Vacation and Sick Leave)

It is the County's policy to permit employees to accumulate earned but unused sick for the library employees and vacation pay benefits for all of the employees with certain limitations which vary among employee classification. All vacation pay is accrued when incurred in the government-wide financial statements. A liability for these amounts is reported only in governmental funds for employee terminations as of year end.

Long-Term Obligations – In the government-wide financial statements and the proprietary fund types in the fund financial statements, long-term debt and other long-term obligations are reported as liabilities in the applicable governmental activities, business-type activities, or proprietary fund type statement of net assets.

NOTE 1 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

Fund Equity – In the fund financial statements, governmental funds report reservations of fund balance for amounts that are not available for appropriation or are legally restricted by outside parties for use for a specific purpose. Designations of fund balance represent tentative management plans that are subject to change.

Deferred Revenues – Deferred revenues are those where asset recognition criteria have been met, but for which revenue recognition criteria have not.

Grants and Other Intergovernmental Revenues – Federal grants and assistance awards for all governmental type funds are recorded as intergovernmental revenue in accordance with the terms of the representative grants.

Interfund Transfers – During the course of normal operations, the County has numerous transactions between funds, including expenditures and transfers of resources to provide services, construct assets, and service debt. The accompanying financial statements generally reflect such transactions as operating transfers. The classification of amounts recorded as subsidies, advances, or equity contributions is determined by County management.

Use of Estimates – The preparation of financial statements in conformity with U.S. generally accepted accounting principles requires management to make estimates and assumptions that affect the reported amounts of assets and liabilities and disclosure of contingent assets and liabilities at the date of the reporting period. Actual results could differ from those estimates.

Cost Allocations – The Bus System has a cost allocation plan for all allocated expenses that are approved by the Michigan Department of Transportation, Bureau of Urban, and Public Transportation. These allocated expenses include amounts charged to the program for time spent by accounting personnel in maintaining financial records of the program.

NOTE 2 - STEWARDSHIP, COMPLIANCE, AND ACCOUNTABILITY

Budgetary Information – Annual budgets are adopted on a basis consistent with U.S. generally accepted accounting principles.

Budgets and Budgetary Control – The County follows these procedures in establishing the budgetary data reflected in the financial statements:

- a. Each December, after receiving input from the individual departments, the Board of Commissioners prepares a proposed operating budget for the fiscal period commencing January 1st and lapses on December 31st. The operating budget includes proposed expenditures and the means of financing them.
- b. Public hearings are conducted to obtain taxpayer comments.

NOTE 2 - STEWARDSHIP, COMPLIANCE, AND ACCOUNTABILITY (Continued)

- c. Prior to January 1st, the budget is legally enacted through a resolution passed by the Board of Commissioners.
- d. Budgetary control is exercised at the departmental level of the General Fund. Any revisions that alter the total expenditures of any department or fund (i.e., budget amendments) require approval by the Board of Commissioners. Such amendments are made in accordance with the procedures prescribed under Public Act 621 of 1978.
- e. The budget and approved appropriations lapse at the end of the fiscal year.
- f. The County does not record encumbrances in the accounting records during the year as normal practice and, therefore, no outstanding encumbrances exist at year end.

Budgeted amounts are as originally adopted or amended by the Board of Commissioners during the year. Individual amendments were not material in relation to the original appropriations which were amended. The modified accrual basis of accounting is used for budgetary purposes.

The General Fund revenue budget was adopted on the basis of activities or programs financed by the General Fund.

Michigan Public Act 621 of 1978 requires that budgets be adopted for Governmental Funds. U.S. generally accepted accounting principles require that the financial statements present budgetary comparisons for the Governmental Fund Types for which budgets were legally adopted. The original budget adopted for the General fund was modified throughout the year through various budget amendments.

The budget document presents information by fund, function, department and line items. The legal level of budgetary control adopted by the governing body is the department level.

NOTE 3 - DEPOSITS AND INVESTMENTS

At year end, the County's deposits and investments were reported in the basic financial statements in the following categories:

	<u>Governmental Activities</u>	<u>Business-Type Activities</u>	<u>Total Primary Government</u>	<u>Fiduciary Funds</u>	<u>Component Units</u>
Cash and Equivalents – Unrestricted	\$ 7,604,385	\$ 2,658,535	\$ 10,262,920	\$ 1,192,769	\$ 1,049,654
Total	\$ 7,604,385	\$ 2,658,535	\$ 10,262,920	\$ 1,192,769	\$ 1,049,654

NOTE 3 - DEPOSITS AND INVESTMENTS (Continued)

		Primary Government	Fiduciary Funds	Component Units		
Bank Deposits (checking and savings accounts, certificates of deposit)		\$ 10,246,655	\$ 1,192,769	\$ 1,047,094		
Petty Cash and Cash on Hand		<u>16,265</u>	<u>-</u>	<u>2,560</u>		
Total		<u>\$ 10,262,920</u>	<u>\$ 1,192,769</u>	<u>\$ 1,049,654</u>		
	Fair Value	Less Than 1	1 – 5	6 – 10	More Than 10	
Investments:						
Money Markets	\$ 1,380,397	\$ 1,380,397	\$ -	\$ -	\$ -	
U.S. Treasury Securities	3,373,450	-	3,373,450	-	-	
Asset Backed Securities	<u>1,699,215</u>	<u>1,699,215</u>	<u>-</u>	<u>-</u>	<u>-</u>	
Total Investments	<u>\$ 6,453,062</u>	<u>\$ 3,079,612</u>	<u>\$ 3,373,450</u>	<u>\$ -</u>	<u>\$ -</u>	
	Governmental Activities		\$ 3,167,458			
	Business Activities		1,830,537			
	Component Units		<u>1,455,067</u>			
	Total		<u>\$ 6,453,062</u>			

Interest rate risk. The County does not have a formal investment policy that limits investment maturities as a means of managing its exposure to fair value losses arising from increasing interest rates.

Credit risk. State law limits investments in commercial paper, corporate bonds, and mutual bond funds to the top two ratings issued by nationally recognized statistical rating organizations. The County has no investment policy that would further limit its investment choices.

Custodial credit risk. Investment, custodial credit risk is the risk that in the event of the failure of the counterparty, the County will not be able to recover the value of its investments or securities that are in the possession of an outside party. Of the County's \$6,453,062 in investments all are in the name of the County. Investments are unrated or are not available from the rating agency.

Custodial deposit credit risk. Custodial deposit credit risk is the risk that in the event of a bank failure, the County's deposits may not be returned. State law does not require and the County does not have a policy for custodial deposit credit risk. As of year end, \$11,267,108 of the County's bank balance of \$12,057,941 was exposed to credit risk because it was uninsured and uncollateralized. \$0 was uninsured and collateralized by the pledging financial institution.

NOTE 3 - DEPOSITS AND INVESTMENTS (Continued)Statutory Authority:

Michigan Law (Public Act 20 of 1943 as amended) authorizes the County to deposit and invest in one or more of the following:

- a. Bonds, securities, and other obligations of the United States or an agency or instrumentality of the United States.
- b. Certificates of deposit, savings accounts, deposit accounts, or depository receipts of a financial institution that is eligible to be a depository of funds belonging to the State under a law or rule of this State or the United States.
- c. Commercial paper rated at the time of purchase within the two highest classifications established by not less than two standard rating services and matures not more than 270 days after the date of purchase.
- d. Repurchase agreements consisting of instruments listed in a.
- e. Banker's acceptance of United States banks.
- f. Obligations of this State or any of its political subdivisions that at the time of purchase are rated as investment grade by not less than one standard rating service.
- g. Mutual funds registered under the investment company act of 1940, Title I of Chapter 686, 54 Stat. 789, 15 U.S.C. 80a-1 to 80a-3 and 80a-4 to 80a-64, with the authority to purchase only investment vehicles that are legal for direct investment by a public corporation.
- h. Obligations described in a. through g. if purchased through an interlocal agreement under the urban cooperations act of 1967, 1967 (Ex Sess) PA 7, MCL 124.501 to 124.512.
- i. Investment pools organized under the surplus funds investment pool act, 1982 PA 367, 129.111 to 129.118.
- j. The investment pools organized under the local government investment pool act, 1985 PA 121, MCL 129.141 to 129.150.

NOTE 4 - RECEIVABLESLoans receivable – Housing Commission Fund (Major Fund)

The amount recorded as loans receivable is long-term mortgage notes in the Housing Commission Fund, consisting of grants and loans made to individuals pursuant to community development block grants received from the State of Michigan. Certain homes are secured with mortgages and grants with liens to qualified applicants. The mortgage interest rates vary from 0% to 3.5% and the grants with liens are payable upon transfer of title. The receivable is offset with deferred revenue, with revenue recognized on a cash basis when collected. The loans were made for the purpose of repair, renovation, or rehabilitation of residential buildings. At December 31, 2007, the total outstanding loans were \$1,447,708.

NOTE 5 - CAPITAL ASSETS

Capital asset activity for the primary government for the current year was as follows:

	<u>Beginning Balances</u>	<u>Increases</u>	<u>Decreases</u>	<u>Ending Balances</u>
Governmental Activities:				
<i>Capital assets not being depreciated:</i>				
Land	\$ 401,154	\$ -	\$ -	\$ 401,154
Construction in Progress	<u>1,238,743</u>	<u>1,540,286</u>	<u>-</u>	<u>2,779,029</u>
Subtotal	<u>1,639,897</u>	<u>1,540,286</u>	<u>-</u>	<u>3,180,183</u>
<i>Capital assets being depreciated:</i>				
Buildings	12,526,159	-	-	12,526,159
Furniture and Fixtures	146,642	104,869	-	251,511
Equipment:				
Data Handling	1,107,887	-	-	1,107,887
Other Equipment	1,736,562	12,238	-	1,748,800
Commission on Aging	97,750	2,275	-	100,025
Vehicles	1,439,316	48,486	-	1,487,802
Infrastructure	<u>5,143,780</u>	<u>25,380</u>	<u>-</u>	<u>5,169,160</u>
Subtotal	<u>22,198,096</u>	<u>193,248</u>	<u>-</u>	<u>22,391,344</u>
<i>Less accumulated depreciation for:</i>				
Buildings	(5,349,890)	(467,186)	-	(5,817,076)
Furniture and Fixtures	(145,477)	(13,653)	-	(159,130)
Equipment:				
Data Handling	(945,932)	(55,175)	-	(1,001,107)
Other Equipment	(889,586)	(52,027)	-	(941,613)
Commission on Aging	(79,345)	(6,850)	-	(86,195)
Vehicles	(1,263,262)	(100,429)	-	(1,363,691)
Infrastructure	<u>(2,098,119)</u>	<u>(257,189)</u>	<u>-</u>	<u>(2,355,308)</u>
Subtotal	<u>(10,771,611)</u>	<u>(952,509)</u>	<u>-</u>	<u>(11,724,120)</u>
Net Capital Assets Being Depreciated	<u>11,426,485</u>	<u>(759,261)</u>	<u>-</u>	<u>10,667,224</u>
Governmental Activities Capital Assets, Net of Depreciation	<u>\$ 13,066,382</u>	<u>\$ 781,025</u>	<u>\$ -</u>	<u>\$ 13,847,407</u>

NOTE 5 - CAPITAL ASSETS (Continued)

Depreciation expense was charged to programs of the primary government as follows:

Governmental Activities:	
Judicial	\$ 9,247
General Government	305,889
Public Safety	46,152
Public Works	333,693
Health and Welfare	32,967
Recreation and Culture	<u>224,561</u>
Total Depreciation – Governmental Activities	<u>\$ 952,509</u>

	<u>Beginning Balances</u>	<u>Increases</u>	<u>Decreases</u>	<u>Ending Balances</u>
Business-type Activities:				
<i>Capital assets not being depreciated:</i>				
Land	\$ 99,998	\$ -	\$ -	\$ 99,998
<i>Capital assets being depreciated:</i>				
Buildings	760,033	-	-	760,033
Vehicles	1,293,753	25,887	-	1,319,640
Equipment	<u>564,204</u>	<u>-</u>	<u>-</u>	<u>564,204</u>
Subtotal	<u>2,617,990</u>	<u>25,887</u>	<u>-</u>	<u>2,643,877</u>
<i>Less accumulated depreciation for:</i>				
Building	(118,228)	(38,001)	-	(156,229)
Vehicles	(1,124,896)	(64,008)	-	(1,188,904)
Equipment	<u>(271,664)</u>	<u>(29,852)</u>	<u>-</u>	<u>(301,516)</u>
Subtotal	<u>(1,514,788)</u>	<u>(131,861)</u>	<u>-</u>	<u>(1,646,649)</u>
Net Capital Assets Being Depreciated	<u>1,103,202</u>	<u>(105,974)</u>	<u>-</u>	<u>997,228</u>
Business-type Activities Capital Assets, Net of Depreciation	<u>\$ 1,203,200</u>	<u>\$ (105,974)</u>	<u>\$ -</u>	<u>\$ 1,097,226</u>

Depreciation expense was charged to programs of the primary government as follows:

Business-Type Activities:	
UC Metropolitan Area Network	\$ 12,297
Bus System	<u>119,564</u>
Total Business-Type Activities	<u>\$ 131,861</u>

NOTE 5 - CAPITAL ASSETS (Continued)

A summary of changes in the Road Commission's capital assets are as follows:

	<u>Beginning Balances</u>	<u>Increases</u>	<u>Decreases</u>	<u>Ending Balances</u>
<i>Capital assets not being depreciated:</i>				
Land and Improvements	\$ 159,408	\$ 10,749	\$ -	\$ 170,157
<i>Capital assets being depreciated:</i>				
Buildings	2,999,960	-	-	2,999,960
Road Equipment	5,265,492	31,864	(57,791)	5,239,565
Shop Equipment	95,153	1,139	-	96,292
Office Equipment	76,879	3,110	(3,807)	76,182
Engineer's Equipment	15,846	-	-	15,846
Yard and Storage Equipment	1,800	-	-	1,800
Depletable Assets	4,760	-	-	4,760
Traffic Signals	44,756	-	-	44,756
Infrastructure – Bridges	855,545	71,394	-	926,939
Infrastructure – Roads	<u>26,438,516</u>	<u>1,996,575</u>	<u>-</u>	<u>28,435,091</u>
Subtotal	<u>35,798,707</u>	<u>2,104,082</u>	<u>(61,598)</u>	<u>37,841,191</u>
<i>Less accumulated depreciation:</i>				
Building	(1,014,149)	(71,114)	-	(1,085,263)
Road Equipment	(4,357,632)	(354,810)	57,291	(4,655,151)
Shop Equipment	(76,236)	(6,429)	-	(82,665)
Office Equipment	(68,598)	(2,855)	2,746	(68,707)
Engineer's Equipment	(15,846)	-	-	(15,846)
Yard and Storage Equipment	(1,800)	-	-	(1,800)
Traffic Signals	(14,125)	(2,984)	-	(17,109)
Infrastructure – Bridges	(211,768)	(28,981)	-	(240,749)
Infrastructure – Roads	<u>(13,948,278)</u>	<u>(580,113)</u>	<u>-</u>	<u>(14,528,391)</u>
Subtotal	<u>(19,708,432)</u>	<u>(1,047,286)</u>	<u>60,037</u>	<u>(20,695,681)</u>
Net Capital Assets Being Depreciated	<u>16,090,275</u>	<u>1,056,796</u>	<u>(1,561)</u>	<u>17,145,510</u>
Total Net Capital Assets	<u>\$ 16,249,683</u>	<u>\$ 1,067,545</u>	<u>\$ (1,561)</u>	<u>\$ 17,315,667</u>

Depreciation expense was charged entirely to Public Works.

NOTE 5 - CAPITAL ASSETS (Continued)

A summary of changes in the Otsego County Ambulance Corporation's capital assets are as follows:

	<u>Beginning Balances</u>	<u>Increases</u>	<u>Decreases</u>	<u>Ending Balances</u>
<i>Capital assets being depreciated:</i>				
Buildings	\$ 725,000	\$ -	\$ -	\$ 725,000
Other Equipment	392,388	36,948	-	429,336
Vehicles	<u>929,648</u>	<u>138,475</u>	<u>-</u>	<u>1,068,123</u>
Subtotal	<u>2,047,036</u>	<u>175,423</u>	<u>-</u>	<u>2,222,459</u>
<i>Less accumulated depreciation for:</i>				
Building	(290,000)	(29,000)	-	(319,000)
Other Equipment	(329,355)	(19,329)	-	(348,684)
Vehicles	<u>(806,161)</u>	<u>(72,649)</u>	<u>-</u>	<u>(878,810)</u>
Subtotal	<u>(1,425,516)</u>	<u>(120,978)</u>	<u>-</u>	<u>(1,546,494)</u>
Net Capital Assets Being Depreciated	<u>\$ 621,520</u>	<u>\$ 54,445</u>	<u>\$ -</u>	<u>\$ 675,965</u>

Depreciation expense was charged entirely to Health and Welfare.

A summary of changes in the Otsego County University Center's capital assets are as follows:

	<u>Beginning Balances</u>	<u>Increases</u>	<u>Decreases</u>	<u>Ending Balances</u>
<i>Capital assets being depreciated:</i>				
Buildings	\$ 12,908	\$ -	\$ -	\$ 12,908
Leasehold Improvements	24,854	-	-	24,854
Furniture and Fixtures	219,601	-	-	219,601
Data Handling Equipment	<u>454,276</u>	<u>42,579</u>	<u>(49,327)</u>	<u>447,528</u>
Subtotal	<u>711,639</u>	<u>42,579</u>	<u>(49,327)</u>	<u>704,891</u>
<i>Less accumulated depreciation for:</i>				
Buildings	(1,548)	(516)	-	(2,064)
Leasehold Improvements	(24,853)	-	-	(24,853)
Furniture and Fixtures	(163,698)	(3,762)	-	(167,460)
Data Handling Equipment	<u>(403,779)</u>	<u>(26,690)</u>	<u>49,327</u>	<u>(381,142)</u>
Subtotal	<u>(593,878)</u>	<u>(30,968)</u>	<u>49,327</u>	<u>(575,519)</u>
Net Capital Assets Being Depreciated	<u>\$ 117,761</u>	<u>\$ 11,611</u>	<u>\$ -</u>	<u>\$ 129,372</u>

Depreciation expense was charged entirely to Recreation and Culture.

NOTE 6 - INTERFUND RECEIVABLES, PAYABLES, AND TRANSFERS

The County of Otsego, Michigan reports interfund balances between many of its funds. Some of the balances are considered immaterial and are aggregated into a single column or row. The total of all balances agrees with the sum of interfund balances presented in the statements of net assets/balance sheet for governmental funds, proprietary funds, and fiduciary funds. Interfund transactions resulting in interfund Receivables and Payable are as follows:

DUE TO OTHER FUNDS					
DUE FROM OTHER FUNDS		Public	Nonmajor	Delinquent	
		Improvement	Governmental	Tax	Total
			Funds		
	Nonmajor Governmental Funds	\$ 156,413	\$ 15,199	\$ 21,645	\$ 193,257
	Total	\$ 156,413	\$ 15,199	\$ 21,645	\$ 193,257

ADVANCES TO OTHER FUNDS				
ADVANCES FROM OTHER FUNDS		General	Public	
		Fund	Improvement	Total
	Public Transportation Component Unit	\$ -	\$ 26,704	26,704
		18,318	177,886	196,204
	Total	\$ 18,318	\$ 204,590	\$ 222,908

All balances resulted from the time lag between the dates that (1) interfund goods and services are provided or reimbursable expenditures occur, (2) transactions are recorded in the accounting system, and (3) payments between funds are made.

TRANSFERS (OUT)						
TRANSFERS IN		General Fund	Revenue Sharing Reserve	Nonmajor Governmental	Component Units	Total
	General Fund	\$ -	\$ 423,308	\$ 12,300	\$ -	\$ 435,608
	Housing	588	-	1,100	-	1,688
	Nonmajor Government	1,436,290	-	-	250,500	1,686,790
	Nonmajor Proprietary	<u>4,500</u>	<u>-</u>	<u>4,500</u>	<u>-</u>	<u>9,000</u>
	Total	\$ 1,441,378	\$ 423,308	\$ 17,900	\$ 250,500	\$ 2,133,086

NOTE 6 - INTERFUND RECEIVABLES, PAYABLES, AND TRANSFERS (Continued)

Transfers are used to (1) move revenues from the fund that statute or budget requires to collect them to the fund that statute or budget requires to expend them, (2) moves receipts restricted to debt service from the funds collecting the receipts to the debt service fund as debt service payments become due, and (3) use unrestricted revenues collected in the general fund to finance various programs accounted for in other funds in accordance with budgetary authorizations.

NOTE 7 - LONG-TERM DEBT

The government issues bonds to provide for the acquisition and construction of major capital facilities. General obligation bonds are direct obligations and pledge the full faith and credit of the government. County contractual agreements and installment purchase agreements are also general obligations of the government.

The long-term debt and other long-term obligations of the County's governmental funds, and the changes therein, may be summarized as follows:

	Balance 01/01/07	Increases	Decreases	Balance 12/31/07	Due Within One Year
Otsego County Building Authority Series 1991 Bonds, (Alpine Center Project) maturing serially through 2012 in annual amounts ranging from \$15,000 to \$95,000 and at interest rates ranging from 7% to 9.5%.	\$ 460,000	\$ -	\$ 55,000	\$ 405,000	\$ 60,000
Otsego County Building Authority Series 1994-1 Bonds, maturing serially through 2014 in annual amounts ranging from \$20,000 to \$60,000 and at interest rates ranging from 4.1% to 6.3%.	375,000	-	35,000	340,000	40,000
Otsego County Building Authority Series 2000 Bonds, maturing serially through 2020 in annual amounts ranging from \$75,000 to \$250,000 and at interest rates from 5% to 5.5%.	2,450,000	-	125,000	2,325,000	125,000
Vested Employee Benefits Payable	<u>118,982</u>	<u>-</u>	<u>5,705</u>	<u>113,277</u>	<u>-</u>
Total Long-Term Debt	<u>\$ 3,403,982</u>	<u>\$ -</u>	<u>\$ 220,705</u>	<u>\$ 3,183,277</u>	<u>\$ 225,000</u>

NOTE 7 - LONG-TERM DEBT (Continued)

Annual debt service requirements to maturity for the above obligations are as follows:

<u>Year End December 31</u>	<u>Governmental Activities</u>	
	<u>Principal</u>	<u>Interest</u>
2008	\$ 225,000	\$ 166,130
2009	245,000	152,455
2010	255,000	137,865
2011	285,000	122,158
2012	295,000	105,108
2013-2017	1,065,000	330,679
2018-2020	<u>700,000</u>	<u>58,844</u>
Total	<u>\$ 3,070,000</u>	<u>\$ 1,073,239</u>

The long-term debt of the Road Commission is summarized as follows:

	<u>Balance 01/01/07</u>	<u>Increases</u>	<u>Decreases</u>	<u>Balance 12/31/07</u>	<u>Due Within One Year</u>
General Obligation:					
Equipment Installment Loan	\$ 176,956	\$ -	\$ (105,011)	\$ 71,945	\$ 61,242
Compensated Absences (1)	<u>72,774</u>	<u>26,303</u>	<u>-</u>	<u>99,077</u>	<u>-</u>
Total	<u>\$ 249,730</u>	<u>\$ 26,303</u>	<u>\$ (105,011)</u>	<u>\$ 171,022</u>	<u>\$ 61,242</u>

(1) The change in compensated absences is shown as a net addition.

The Road Commission entered into an installment loan with Fifth Third Bank for the purchase of three International trucks on July 6, 2004. The initial debt was \$228,073 with interest accruing at 2.92%. The equipment installment agreement requires 36 payments of \$6,624.60 per month with the final payment due on July 6, 2007.

The Road commission entered into an installment loan with First Federal of Northern Michigan for the purchase of two International 5500I plow trucks on March 1, 2006. The initial debt was \$177,240 with interest accruing at 4.29%. The equipment installment agreement requires 36 payments of \$5,256 per month with the final payment due on March 1, 2009.

<u>Annual Debt Service Requirements:</u>	<u>Principal</u>	<u>Interest</u>	<u>Total</u>
2008	\$ 61,242	\$ 1,828	\$ 63,070
2009	<u>10,703</u>	<u>56</u>	<u>10,759</u>
Totals	<u>\$ 71,945</u>	<u>\$ 1,884</u>	<u>\$ 73,829</u>

NOTE 8 - COMPENSATED ABSENCESPrimary Government

Substantially all County employees are entitled to certain vacation and sick pay benefits that accrue and vest under various parameters. The amounts depend upon which labor contract the employee is subject to or upon which department or fund the employee is within. Accrued benefits for all governmental fund types are reported as long-term debt.

A summary of vested benefits payable at December 31, 2007 is as follows:

	<u>01/01/07</u>	<u>Change</u>	<u>12/31/07</u>
Vacation	\$ 98,132	\$ (9,374)	\$ 88,758
Sick	<u>20,850</u>	<u>3,669</u>	<u>24,519</u>
Total	<u>\$ 118,982</u>	<u>\$ (5,705)</u>	<u>\$ 113,277</u>

Vested Employee Benefits Payable – Bus System (Enterprise Fund)

Vacation leave is earned in varying amounts depending on the number of years of service of an employee and is made available on the anniversary date of the employee.

Sick leave is earned at the beginning of the calendar year at a rate of 52 1/2 or 56 hours per full-time employee per year. Any unused sick leave is paid to the employee on the closest pay period to Christmas. There is no carry over of sick leave hours allowed.

Upon termination, an employee receives payment for the balance of any unused vacation leave which begins to accrue on the employee's anniversary date. Employees can carry over a maximum of 40 hours of vacation leave to the next year. Unused sick leave is paid upon termination. Therefore, accumulated vacation and sick leave at September 30, 2007 will be paid from current financial resources and is not recorded as long-term liability.

Road Commission – Component Unit

Substantially all employees of the Road Commission can accumulate vacation hours. The accumulated hours at December 31, 2007 at current wage rates amounted to \$99,077 and is reflected in the Long-Term Debt. Sick leave is not vested and accordingly is not accrued.

NOTE 9 - OPERATING LEASESPrimary Government Operating Leases

Commission on Aging – The Commission on Aging has an operating lease with Ricoh for the use of a copier. The Monthly payment is \$388, with the lease agreement effective through April, 2008. Additionally, the Commission has an operating lease with Pitney Bowes for a mailing system. The quarterly payment is \$174, effective through March 2009. Future lease obligations for the copier are as follows:

<u>Year Ending September 30</u>	<u>Copier</u>	<u>Mailing System</u>
2008	4,656	696
2009	1,164	348

The Commission on Aging entered into a sublease with Northwest Michigan Community Health Agency to rent the space commonly known as “Otsego Haus.” The sublease terms beginning January 1, 2001 calls for monthly payments of \$1,620 or \$19,440 annually, and is renewable on a month to month basis.

The Commission on Aging leases office and activity space from Alpine Alten Zimmer. The rent payment totals \$10,200 per year, and is renewable annually.

The Commission on Aging leases the Elkland Senior Center for both programmatic and social events. The rent payments total \$6,600 per year, and is renewable annually.

NOTE 10 - EMPLOYEE RETIREMENT AND BENEFIT SYSTEMSPrimary GovernmentDescription of Plan and Plan Assets

The County is in an agent multiple-employer defined benefit pension plan with the Municipal Employees’ Retirement System (MERS), administered by the State of Michigan. The system provides the following provisions: normal retirement, deferred retirement and service retirement allowance, disability retirement allowance, nonduty-connected death and post-retirement adjustments to plan members and their beneficiaries. The service requirement for General Non-Union, Sheriff Non-Union, General-Local 1534 and Elected Officials is computed using credited service at the time of termination of membership multiplied by the sum of 2% times the final average compensation (FAC). The service requirement for General-Local 214 is computed using credited service at the time of termination of membership multiplied by the sum of 2.25% of (FAC), with a maximum benefit of 80% of FAC. The service requirement for Elected and Appointed Supervisors, 46th Trial Court and the Sheriff-Union is computed using credited service at the time of termination of membership multiplied by the sum of 2.5% of (FAC), with a maximum benefit of 80% of FAC. The most recent period for which actuarial data was available was for the fiscal year ended December 31, 2006.

NOTE 10 - EMPLOYEE RETIREMENT AND BENEFIT SYSTEMS (Continued)

MERS was organized pursuant to Section 12a of Public Act 156 of 1851; MCL 46.12 (a), as amended, State of Michigan. MERS is regulated under Public Act 427 of 1984, sections of which have been approved by the State Pension Commission. MERS issues a publicly available financial report that includes financial statements and required supplementary information for the system. That report may be obtained by writing to the MERS at 1134 Municipal Way, Lansing, Michigan 48917-9755.

Funding Policy

The obligation to contribute to and maintain the system for these employees was established by negotiation with the County's competitive bargaining unit and personnel policy, which require employees to contribute to the plan. The County is required to contribute at an actuarially determined rate.

The contribution rate as a percentage of payroll at December 31, 2006 is as follows:

General Non-Union	13.08%
Sheriff Non-Union	-%
Library Non-Union	9.78%
General Local 214	12.13%
General local 1534	10.78%
Elected Officials	-%
Elected/Appointed Supervisors	18.45%
46 th Trial Court	15.37%
Sheriff Union	14.44%
Library Director	17.40%

Annual Pension Cost

During the calendar year ended December 31, 2007, the County's contributions totaled \$635,376 and the employee contributions totaled \$0; these contributions are made in accordance with the contribution requirement determined by an actuarial valuation of the plan as of December 31, 2005, and personnel agreement. The employer contribution rate has been determined based on the entry age normal funding method. Under the entry age normal cost funding method, the total employer contribution is comprised of the normal cost plus the level annual percentage of payroll payment required to amortize the unfunded actuarial accrued liability over 30 years. The employer normal cost is, for each employee, the level percentage of payroll contribution (from entry age to retirement) required to accumulate sufficient assets at the member's retirement to pay for his project benefit. Significant actuarial assumptions used include a long-term investment yield rate of 8% and annual salary increases of 4.5% plus a percentage based on an age-related scale to reflect merit, longevity, and promotional salary increases.

NOTE 10 - EMPLOYEE RETIREMENT AND BENEFIT SYSTEMS (Continued)

Three year trend information as of December 31st is as follows:

	2004	2005	2006
Actuarial Value of Assets	\$ 9,846,623	\$ 10,723,733	\$ 11,833,430
Actuarial Accrued Liability	14,272,389	15,402,046	16,671,503
Unfunded AAL	4,425,766	4,678,313	4,838,073
Funded Ratio	69%	70%	71%
Covered Payroll	5,370,888	5,323,075	5,342,789
UAAL as a Percentage of Covered Payroll	82%	88%	91%

Year Ended Dec 31	Annual Pension Cost (APC)	Percentage of APC Contributed	Net Pension Obligation
2004	\$ 726,048	100%	\$ 0
2005	833,027	100%	0
2006	727,328	100%	0

Road Commission – Component Unit

Description of Plan and Plan Assets

The Otsego County Road Commission participates in a defined benefit retirement plan administered by the Municipal Employee's Retirement System (MERS). The plan covers substantially all full-time employees.

The Municipal Employees Retirement System of Michigan (MERS) is a multiple-employer statewide public employee retirement plan created by the State of Michigan to provide retirement, survivor and disability in the most efficient and effective manner possible. As such, MERS is a non-profit entity qualified under section 401 (a) of the Internal Revenue Code, which has the responsibility of administering the law in accordance with the expressed intent of the Legislature and bears a fiduciary obligation to the State of Michigan, the payers and the public employees who are its beneficiaries.

The passage of HB-5525/Act No. 220, with enactment on May 28, 1996, allowed the members of MERS to vote on and determine if MERS should become an independent public corporation. The vote resulted in approval to become independent of State control and MERS began to operate as an independent public corporation effective August 15, 1996. MERS issues a financial report available to the public that includes financial statements and required supplementary information for the system. A copy of the report may be obtained by writing to MERS at 1134 Municipal Way, Lansing, Michigan 48917.

NOTE 10 - EMPLOYEE RETIREMENT AND BENEFIT SYSTEMS (Continued)

All full-time Road Commission employees and Commissioners are eligible to participate in the system. Benefits vest after ten years of service. Employees who retire at or after age 60 with 10 years credited service are entitled to an annual retirement benefit, payable monthly for life in an amount equal to 2.0 percent of the member's five-year final average compensation. The system also provides death and disability benefits which are established by State Statute.

Contributions Required and Contributions Made

MERS funding policy provide for periodic employer contributions are actuarially determined rates that, expressed as percentage of annual covered payroll, are designed to accumulate sufficient assets to pay benefits when due. The normal cost and amortization payment for the fiscal year ended December 31, 2007 were determined using the entry age normal actuarial funding method. Unfunded actuarial accrued liabilities, if any, were amortized as a level percent of payroll over a period of 30 years. The following table provides a schedule of contribution amounts and percentages for recent years.

Actuarial Accrued Liability

The actuarial accrued liability was determined as part of an actuarial valuation of the plan as of December 2006. Significant actuarial assumptions used in determining the investment of present and future assets of 8.0%, (b) projected salary increase of 4.5% per year compounded annually, attributable to inflation, and on age, attributable to seniority/merit.

All entries are based on the actuarial methods and assumptions that were used in the December 31, 2006 actuarial valuation to determine the annual employer contribution amounts. The entry age normal actuarial method used to determine the entries at disclosure.

GABS 25 INFORMATION (as of 12/31/06)

Actuarial Accrued Liability:

Retirees and beneficiaries currently receiving benefits	\$ 3,150,162
Terminated employees not yet receiving benefits	91,933
Current Employees:	
Accumulated employees contributions including allocated investment income	74,530
Employer financed	<u>4,333,219</u>
Total actuarial accrued liability	7,649,844
Net assets available for benefits, at actuarial value (Market value is \$6,369,685)	<u>6,281,809</u>
Unfunded (over funded) actuarial accrued liability	<u>\$ 1,368,035</u>

NOTE 10 - EMPLOYEE RETIREMENT AND BENEFIT SYSTEMS (Continued)

GABS 27 INFORMATION (as of 12/31/06)

Fiscal year beginning	January 1, 2008
Annual required contribution (ARC)	\$ 208,476
Amortization factor used	0.054719

Annual Pension Cost

<u>Year Ended Dec 31</u>	<u>Annual Pension Cost (APC)</u>	<u>Percentage of APC Contributed</u>	<u>Net Pension Obligation</u>
2004	\$ 216,904	100%	\$ 0
2005	215,640	100%	0
2006	208,476	100%	0

The Road Commission was required to contribute \$208,302 for the year ended December 31, 2007. Payments were based on contribution calculation made by MERS.

Aggregated Accrued Liabilities – Comparative Schedule

	<u>2004</u>	<u>2005</u>	<u>2006</u>
Actuarial Value of Assets	\$ 5,706,795	\$ 5,931,141	\$ 6,281,809
Actuarial Accrued Liability	7,209,588	7,422,771	7,649,844
Unfunded AAL	1,502,793	1,491,630	1,368,035
Funded Ratio	79%	80%	82%
Covered Payroll	1,639,489	1,637,342	1,608,666
UAAL as a Percentage of Covered Payroll	92%	91%	85%

For actuarial valuation purposes, the actuarial value of assets is determined on the basis of a calculation method that assumes the fund earns the expected rate of return (8%), and includes an adjustment to reflect market value.

Actuarial assumptions for MERS valuations were revised for the 1993, 1997, 2000, and 2004 valuations.

NOTE 11 - POST EMPLOYMENT BENEFITS (Continued)Component Unit

In addition to the pension benefits described in Note 10, the County Road Commission provides post retirement health care benefits, payment of Blue Cross health premiums on a pay as you go basis, to 25 people who have retired from the Road Commission. The premiums for the retirees amounted to \$315,061 for the year ended December 31, 2007.

NOTE 12 - DEFERRED COMPENSATION PLANPrimary Government

Otsego County offers all employees a deferred compensation plan created in accordance with the Internal Revenue Code (IRC), Section 457. Effective January 1, 1997, the assets of the plan were held in a trust, custodial account or annuity contract describe in IRC Section 457(g) for the exclusive benefit for the participants (employees) and their beneficiaries. The custodial account is held by the custodian for the exclusive benefit of the participants and beneficiaries of these Section 457 plans and the assets may not be diverted to any other use. The administrator (Nationwide Retirement Solutions) is an agent of the employer. The Administrator provides direction to the custodian, from time to time, regarding the investment of the funds held in the account, transfer of assets to or from the account and all other matters. In accordance with provisions of GASB Statement No. 32, plan balances and activities are not reflected in the County's financial statements.

Commission on Aging

The Otsego County Commission on Aging offers its employees a deferred compensation plan created in accordance with IRC Section 457. The plan, available to all employees, permits them to defer a portion of their current earnings until the employee's termination, retirement, death, or unforeseeable emergency.

The Commission's liability to each participant is equal to the participant's deferred compensation adjusted by an amount equal to the investment performance in a related assets account. Investments are managed by a trustee, and investment decisions are made by individual employees. The Commission, through Otsego County, provides the duty of due care that would be required of an ordinary prudent investor.

The plan assets totaled \$318,278 as of September 30, 2007.

Component Unit – Road Commission

The Otsego County Road Commission offers it employees a deferred compensation plan created in accordance with IRC Section 457. The plan, available to all Road Commission employees, permits them to defer a portion of their current salary until future years. The deferred compensation is not available to the employees until termination, retirement, death, or unforeseeable emergency.

NOTE 12 - DEFERRED COMPENSATION PLAN (Continued)

In the past, the Road Commission was custodian of the assets of the plan and therefore recorded the plan's activity in a trust fund in accordance with Statement No. 2 of the Government Accounting Standards Board (GASB). With the implementation of GASB Statement No. 32 and the Road Commission transferring custodianship of the plan to an independent party, balances for the deferred compensation plan are no longer reported in the financial statements.

Component Unit – Sportsplex

The Otsego County Sportsplex offers its employees a Saving Incentive Match Plan for Employees (SIMPLE plan) Individual Retirement Account (IRA) in accordance with IRC Section 408(p). The plan, available to Sportsplex employees earning at least \$5,000 in annual compensation, permits them to defer a portion of their current salary until future years. The deferred compensation is not available to the employees until termination, retirement, death, or unforeseeable emergency. The employer matches employee contributions up to 3% of the employees elected salary contribution.

NOTE 13 - RISK MANAGEMENT/SELF-INSURANCE PROGRAMS**Primary Government**

The County is exposed to risks of loss related to theft of, damage to, and destruction of assets; errors and omissions; injuries to employees; and natural disasters. The government manages its risk exposures and provides certain employee benefits through a combination of self-insurance programs, risk management pools and commercial insurance and excess coverage policies. The following is a summary of these self-insurance programs and risk management pool participation.

The County participates in the Michigan Municipal Risk Management Authority (MMRMA) for general and automobile liability, motor vehicle physical damage, and property damage coverages. The MMRMA was established in January 1980, pursuant to laws of the State of Michigan, which authorize local units of government to jointly exercise any power, privilege or authority which each might exercise separately. The purpose of the Authority is to provide cooperative and comprehensive risk financing and risk control services. The MMRMA provides risk management, underwriting, reinsurance and claim review and processing services for all member governments pursuant to its charter.

The government makes annual contributions to MMRMA based on actuarial studies using historical data and insurance industry statistics. These contributions are paid from the general fund using premiums paid into it by other funds of the government. Such contributions are received by MMRMA are allocated between its general and member retention funds. Economic resources in the MMRMA's general fund are expended for reinsurance coverage, claim payments and certain general and administrative costs, whereas resources in the member retention fund are used for loss payments and defense costs up to the members' self-insurance retention limits along with certain other member-specific costs.

NOTE 13 - RISK MANAGEMENT/SELF-INSURANCE PROGRAMS (Continued)

Accordingly, because contributions to the member retention fund are essentially recognized as revenue by MMRMA to the extent of expenditures, the government records an asset and a related liability, equal to the loss reserves estimated by MMRMA, for its portion of the unexpended member retention fund in the Michigan Municipal Risk Agency Fund. At December 31, 2007, the balance of the County's member retention was \$62,179.

<u>Coverage</u>	<u>Self-Insured Retention</u>
Liability	\$75,000
Vehicle Physical Damage \$1,000 Member Deductible	\$15,000 Per Vehicle \$30,000 Per Occurrence
Property and Crime \$1,000 Deductible Per Occurrence	10% of the Next \$100,000
Employee Benefits	Commercial Insurance Provider

Workers' Compensation

The County is a member of the Michigan Counties Workers' Compensation Fund. Full statutory coverage for workers' disability compensation and employers' liability is guaranteed by the fund for Michigan operations through authority granted by the State of Michigan under Chapter 6, Section 418.611, Paragraph (2) of the Workers' Disability Compensation Act of 1969, as amended.

At December 31, 2007 there were no claims that exceeded insurance coverage. The County had no significant reduction in insurance coverage from previous years.

Bus System – The Bus System is included in the County's insurance policies.

Commission on Aging – The Commission on Aging has insurance coverage provided by independent insurance companies for property, general liability, fire, workers' compensation and employee bond coverage. The Commission on Aging liability is normally limited to the deductible.

Component Unit – Road Commission

Otsego County Road Commission is a member of the Michigan County Road Commission Self-Insurance Pool (Pool) established pursuant to the laws of the State of Michigan, which authorizes contracts between municipal corporations (interlocal agreements) to form group self-insurance pools, and to prescribe conditions to the performance of these contracts.

NOTE 13 - RISK MANAGEMENT/SELF-INSURANCE PROGRAMS (Continued)

The Pool was established for the purpose of making a self-insurance pooling program available which includes, but is not limited to, general liability coverages, auto liability coverages, property insurance coverages, stop loss insurance protections, claims administration and risk management, and loss control services pursuant to Public Act 138 of 1982.

The Otsego County Road Commission pays an annual premium to the Pool for property (buildings and contents) coverage, automobile and equipment liability, errors or omissions liability and bodily injury, property damage and personal injury liability. The agreement for the formation of the Pool provides that the Pool will be self-sustaining through member premiums and will purchase both specific and aggregate stop-loss insurance to the limits determined necessary by the Pool Board.

The Road Commission is also self-insured for workers' compensation and is a member of the County Road Association Self-Insurance Fund.

At December 31, 2007, there were no claims that exceeded insurance coverage. The Road Commission did not have any significant reduction in insurance coverage from previous years.

Component Unit – Ambulance Corporation

The Ambulance Corporation is exposed to risks of loss related to theft of, damage to, and destruction of assets; errors and omissions; injuries to employees; and natural disasters. The Ambulance's general liability, property, and vehicle insurance is included in the County's plan. Additional vehicle insurance, health insurance, and workers' compensation is obtained through commercial insurance providers.

At December 31, 2007, there were no claims that exceeded insurance coverage. The Ambulance Corporation had no significant reduction in insurance coverage from previous years.

Component Unit – Sportsplex

The Sportsplex is exposed to risks of loss related to theft of, damage to, and destruction of assets; errors and omissions; injuries to employees; and natural disasters. The Sportsplex's general liability and property insurance is included in the County's plan. Health insurance and workers' compensation is obtained through commercial insurance providers. At December 31, 2007, there were no claims that exceeded insurance coverage. The Sportsplex had no significant reduction in insurance coverage from previous years.

NOTE 14 - CONTINGENT LIABILITIES

The County has received significant financial assistance from state and federal agencies in the form of various grants. The disbursement of funds received under these programs generally requires compliance with terms and conditions specified in the grant agreement and is subject to audit by the grantor agency. Any disallowed claims resulting from such audits could become a liability of the applicable fund of the County. However, in the opinion of management, any such disallowed claims will not have a material effect on any of the financial statements of the individual fund types included herein or on the overall financial position of the County at December 31, 2007.

Litigation – On November 19, 2002, the 46th Circuit Trial Court filed suit against Crawford and Kalkaska County, with Otsego County later being named as third-party defendant. In July of 2006, the Michigan State Supreme Court ruled in favor of Crawford and Kalkaska and remanded the case back to the Appeals Court to reconsider the responsibility of funding the Trial Court's legal fees. On March 26, 2008, the Appeals Court ruled that the Court's legal fees are collectible and that the three funding units (Otsego, Crawford, and Kalkaska) are responsible for sharing the cost of the Court's attorney fees. A ruling on the percentages payable by each funding unit is expected in the near future. The immediate outstanding liability to Otsego County will be their percentage of the amount of attorney fees awarded to those representing the court through this litigation. It is believed that the gross amount of attorney fees for the Court that have accumulated since the beginning is somewhere between \$1.1 and \$1.2 million.

NOTE 15 - STATE EQUIPMENT PURCHASE ADVANCEComponent Unit – Road Commission

State equipment purchase advance is determined by a formula applied to the book value of equipment of the previous fiscal year. This amount is adjusted each fiscal year in accordance with the formula and would be refunded to the State Department of Transportation upon termination of the State Highway Maintenance Contract.

NOTE 16 - LEASES – COMPONENT UNIT

Capital Leases – The County leases two ambulances and equipment under capital leases with yearly lease payments of \$40,924, including an interest rate of 1% to 6%. The leases qualify as capital leases for accounting purposes and therefore have been recorded at the present value of future minimum lease payments as of the inception date.

The future minimum lease obligations and the net present values are as follows:

2008	\$	40,924
2009		14,286
2010		<u>4,138</u>
Total minimum lease payments		59,348
Less amount representing interest		<u>(4,481)</u>
Present value of minimum lease payment	\$	<u>54,867</u>

NOTE 17 - DEFICIT FUND EQUITY BALANCES:

A fund equity deficit existed in the following funds as indicated:

Courthouse Restoration	\$	(121,612)
Jail Study	\$	(21,207)

The County plans to recover these deficits with future fee increases and transfers from governmental funds.

NOTE 18 - PRIOR PERIOD ADJUSTMENT:

Transfers from court restoration building to the public improvement and airport in the amount of \$169,418 were not recorded in prior years. The prior period adjustment will affect the beginning fund balances of those funds as follows:

	<u>Public Improvements</u>	<u>Court Restoration Building</u>	<u>Airport</u>
Beginning Balance	\$ 1,440,485	\$ (342,521)	\$ 85,992
Prior Period Adjustment	<u>(155,228)</u>	<u>169,498</u>	<u>(14,270)</u>
Restated Beginning Fund Balance	<u>\$ 1,285,257</u>	<u>(173,023)</u>	<u>\$ (71,722)</u>

Required Supplementary Information

County of Otsego, Michigan

Required Supplementary Information Budgetary Comparison Schedule General Fund For the Year Ended December 31, 2007

	Budgeted Amounts		Actual Amounts	Variance with Final Budget - Positive (Negative)
	Original	Final		
REVENUES:				
Taxes and Penalties	\$ 4,693,597	\$ 5,253,597	\$ 5,160,065	\$ (93,532)
Licenses and Permits	37,800	38,200	32,624	(5,576)
Federal Grants	329,081	362,341	382,018	19,677
State Grants	781,832	822,980	820,051	(2,929)
Local Contributions	12,362	13,617	16,075	2,458
Charges for Services	1,041,805	1,228,005	1,237,683	9,678
Fines & Forfeits	26,050	26,050	29,801	3,751
Interest & Rentals	180,000	207,000	327,532	120,532
Other Revenues	79,085	152,334	182,030	29,696
TOTAL REVENUES	7,181,612	8,104,124	8,187,879	83,755
EXPENDITURES:				
Legislative:				
Board of Commissioners	201,618	205,461	198,632	6,829
Judicial:				
46th Trial Court	1,021,219	78,261	77,850	411
Circuit Court	254,055	1,119,999	1,022,147	97,852
Not Shared Court Exp.	-	46,260	42,910	3,350
District Court	-	61,770	60,492	1,278
Friend of the Court	363,370	403,006	399,390	3,616
Jury Commission	11,100	10,000	8,755	1,245
Probate Court	161,083	166,091	165,643	448
Family Counseling	1,092	1,500	1,440	60
Total judicial	1,811,919	1,886,887	1,778,627	108,260
General Government:				
Administrative Services	229,851	233,351	232,451	900
Building & Grounds	492,607	496,427	496,357	70
Clerk and Register of Deeds	311,919	311,935	291,776	20,159
Audit Services	39,000	39,000	39,000	-
IT Department	85,460	125,460	92,870	32,590
Equalization	236,678	236,678	231,319	5,359
Treasurer	127,191	127,191	120,151	7,040
Cooperative Extension	38,257	49,948	38,296	11,652
Elections	11,220	29,191	18,094	11,097
Prosecuting Attorney	508,605	511,780	506,667	5,113
Surveyor	200	400	400	-
Soil Conservation	-	500	500	-
Survey and Remonumentation	65,279	65,279	65,271	8
Total general government	2,146,267	2,227,140	2,133,152	93,988
Public Safety:				
Sheriff	716,332	767,895	765,037	2,858
Civil Division	-	4,813	4,781	32
Justice Training	6,200	6,200	3,261	2,939
Marine Safety	12,500	12,500	4,112	8,388
Motorcycle Safety Education	48,864	60,392	51,236	9,156
Snowmobile	-	12,000	2,423	9,577
Jail	880,688	870,310	860,848	9,462
Emergency Services	35,179	35,334	32,860	2,474
Total public safety	1,699,763	1,769,444	1,724,558	44,886

County of Otsego, Michigan

Required Supplementary Information Budgetary Comparison Schedule General Fund For the Year Ended December 31, 2007

	Budgeted Amounts		Actual Amounts	Variance with Final Budget - Positive (Negative)
	Original	Final		
Public Works:				
Drains	2,500	3,550	3,550	-
Total public works	2,500	3,550	3,550	-
Health And Welfare:				
Communicable Diseases	500	500	500	-
Medical Examiner	80,280	80,280	74,442	5,838
District Health	158,624	158,624	158,624	-
Mental Health	94,003	94,003	94,003	-
Veterans' Burial	7,200	7,200	7,158	42
Veterans' Affairs	23,215	21,527	20,357	1,170
Substance Abuse	87,468	87,468	85,741	1,727
Total health and welfare	451,290	449,602	440,825	8,777
Community and Economic Development:				
Planning and Zoning	51,712	63,194	55,767	7,427
Invasive Species	-	500	500	-
Total community and economic development	51,712	63,694	56,267	7,427
Other Expenditures:				
Appropriations	2,500	73,714	73,714	-
Bonds and Insurance	340,000	256,236	251,346	4,890
Retiree Insurance	135,881	107,839	85,423	22,416
Other	129,600	54,787	37,650	17,137
Total other expenditures	607,981	492,576	448,133	44,443
TOTAL EXPENDITURES	6,973,050	7,098,354	6,783,744	314,610
EXCESS OF REVENUES OVER EXPENDITURES	208,562	1,005,770	1,404,135	398,365
OTHER FINANCING SOURCES (USES):				
Operating Transfers In	433,975	435,608	435,608	-
Operating Transfers Out	(642,537)	(1,441,378)	(1,441,378)	-
EXCESS (DEFICIENCY) OF REVENUES AND OTHER FINANCING SOURCES OVER EXPENDITURES AND OTHER FINANCING USES	\$ -	\$ -	398,365	\$ 398,365
FUND BALANCES, JANUARY 1			455,625	
FUND BALANCES, DECEMBER 31			\$ 853,990	

County of Otsego, Michigan

Required Supplementary Information Budgetary Comparison Schedule M-TEC Fund For the Year Ended December 31, 2007

	Budgeted Amounts		Actual Amounts	Variance with Final Budget - Positive (Negative)
	Original	Final		
REVENUES:				
Taxes	\$ 692,970	\$ 740,000	\$ 778,954	\$ 38,954
TOTAL REVENUES	692,970	740,000	778,954	38,954
EXPENDITURES:				
Community/Economic Development	692,970	740,000	745,562	(5,562)
TOTAL EXPENDITURES	692,970	740,000	745,562	(5,562)
EXCESS OF REVENUES (EXPENDITURES)	\$ -	\$ -	33,392	\$ 33,392
FUND BALANCE, JANUARY 1			43	
FUND BALANCE, DECEMBER 31			\$ 33,435	

Required Supplementary Information
Budgetary Comparison Schedule
Housing Commission Fund
For the Year Ended December 31, 2007

	Budgeted Amounts		Actual Amounts	Variance with Final Budget - Positive (Negative)
	Original	Final		
REVENUES:				
State Sources	\$ 192,500	\$ 192,500	\$ -	\$ (192,500)
Local Sources	80,000	59,577	6,599	(52,978)
Interest and Rentals	7,000	6,712	3,931	(2,781)
Other Revenues	67,086	102,770	175,562	72,792
TOTAL REVENUES	346,586	361,559	186,092	(175,467)
EXPENDITURES:				
Community and Economic Development	285,779	501,083	155,263	345,820
TOTAL EXPENDITURES	285,779	501,083	155,263	345,820
EXCESS OF REVENUES (EXPENDITURES)	60,807	(139,524)	30,829	170,353
OTHER FINANCING SOURCES (USES):				
Operating Transfers In	105,465	309,512	1,688	(307,824)
Operating Transfers Out	(77,665)	(327,955)	-	327,955
EXCESS (DEFICIENCY) OF REVENUES AND OTHER FINANCING SOURCES OVER EXPENDITURES AND OTHER FINANCING USES	\$ 88,607	\$ (157,967)	32,517	\$ 190,484
FUND BALANCE, JANUARY 1			134,711	
FUND BALANCE, DECEMBER 31			\$ 167,228	

Required Supplementary Information
Budgetary Comparison Schedule
Revenue Sharing Reserve Fund
For the Year Ended December 31, 2007

	Budgeted Amounts		Actual Amounts	Variance with Final Budget - Positive (Negative)
	Original	Final		
REVENUES:				
Taxes	\$ 1,462,159	\$ 1,462,159	\$ -	\$ (1,462,159)
Interest & Rentals	-	-	121,157	121,157
 TOTAL REVENUES	 1,462,159	 1,462,159	 121,157	 (1,341,002)
OTHER FINANCING SOURCES (USES):				
Operating Transfers Out	(407,809)	(423,308)	(423,308)	-
 EXCESS (DEFICIENCY) OF REVENUES OVER OTHER FINANCING USES	 \$ 1,054,350	 \$ 1,038,851	 (302,151)	 \$ (1,341,002)
 FUND BALANCE, JANUARY 1			 3,396,144	
 FUND BALANCE, DECEMBER 31			 \$ 3,093,993	

Required Supplementary Information
Budgetary Comparison Schedule
Public Improvement Fund
For the Year Ended December 31, 2007

	Budgeted Amounts		Actual Amounts	Variance with Final Budget - Positive (Negative)
	Original	Final		
REVENUES:				
Interest and Rentals	\$ 50,000	\$ 50,000	\$ 57,304	\$ 7,304
Other Revenues	-	70,000	6,091	(63,909)
TOTAL REVENUES	50,000	120,000	63,395	(56,605)
EXPENDITURES:				
Capital Outlay	-	105,710	-	105,710
TOTAL EXPENDITURES	-	105,710	-	105,710
EXCESS OF REVENUES (EXPENDITURES)	50,000	14,290	63,395	49,105
OTHER FINANCING SOURCES (USES):				
Operating Transfers In	35,000	35,000	-	(35,000)
EXCESS (DEFICIENCY) OF REVENUES AND OTHER FINANCING SOURCES OVER EXPENDITURES AND OTHER FINANCING USES	\$ 85,000	\$ 49,290	63,395	\$ 14,105
FUND BALANCE, JANUARY 1			1,440,485	
Prior Period Adjustment			(155,228)	
FUND BALANCE, DECEMBER 31			\$ 1,348,652	

Required Supplementary Information
Budgetary Comparison Schedule
Library Fund
For the Year Ended December 31, 2007

	Budgeted Amounts		Actual Amounts	Variance with Final Budget - Positive (Negative)
	Original	Final		
REVENUES:				
Taxes	\$ 404,692	\$ 404,692	\$ 421,559	\$ 16,867
State Sources	26,297	26,297	38,339	12,042
Charges for Services	25,000	25,000	6,192	(18,808)
Fines & Forfeits	175,000	175,000	165,937	(9,063)
Interest and Rentals	16,000	16,000	51,847	35,847
Other Revenues	9,000	9,000	1,925	(7,075)
TOTAL REVENUES	655,989	655,989	685,799	29,810
EXPENDITURES:				
Recreation and Culture	682,774	682,774	606,340	76,434
TOTAL EXPENDITURES	682,774	682,774	606,340	76,434
EXCESS OF REVENUES (EXPENDITURES)	(26,785)	(26,785)	79,459	106,244
OTHER FINANCING SOURCES (USES):				
Operating Transfers In	26,785	26,785	-	(26,785)
EXCESS (DEFICIENCY) OF REVENUES AND OTHER FINANCING SOURCES OVER EXPENDITURES AND OTHER FINANCING USES	\$ -	\$ -	79,459	\$ 79,459
FUND BALANCE, JANUARY 1			657,630	
FUND BALANCE, DECEMBER 31			\$ 737,089	

Other Supplementary Information

County of Otsego, Michigan

Combining Balance Sheet Nonmajor Governmental Funds December 31, 2007

Special Revenue Funds								
	Parks & Recreation	Friend of the Court	Animal Control	Animal Control Forfeited Funds	Gypsy Moth Control	Building Department	Register of Deeds Automation Fund	Budget Stabilization Fund
ASSETS:								
Cash and Equivalents	\$ 71,246	\$ 43,573	\$ 53,072	\$ 857	\$ 16,181	\$ 88,583	\$ 21,546	\$ 271,584
Investments	90,000	-	394,475	20,000	150,000	-	-	388,949
Taxes Receivable	306,351	-	366,534	-	-	-	-	-
Accounts Receivable	1,958	-	523	-	-	324	-	-
Due from Other Funds	-	-	-	-	-	-	-	-
Due from Other Governmental Units	-	18,826	-	-	-	-	-	-
Inventory	-	-	-	-	-	-	-	-
TOTAL ASSETS	\$ 469,555	\$ 62,399	\$ 814,604	\$ 20,857	\$ 166,181	\$ 88,907	\$ 21,546	\$ 660,533
LIABILITIES:								
Due to Other Funds	\$ -	\$ -	\$ -	\$ -	\$ -	\$ 21,645	\$ -	\$ -
Accounts Payable	2,398	828	6,668	-	-	3,048	742	-
Due to Other Governmental Units	-	-	-	-	-	-	-	-
Accrued Liabilities	4,499	784	2,360	-	182	5,416	-	-
Deferred Revenues	306,351	-	366,534	-	-	-	-	-
TOTAL LIABILITIES	313,248	1,612	375,562	-	182	30,109	742	-
FUND EQUITY:								
Fund Balances:								
Reserved for Inventory	-	-	-	-	-	-	-	-
Reserved for Schneider Trust	-	-	-	-	-	-	-	-
Reserved for Debt Service	-	-	-	-	-	-	-	-
Reserved for Capital Expenditures	-	-	-	-	-	-	-	-
Unreserved-								
Designated	-	-	-	-	-	443	-	-
Undesignated	156,307	60,787	439,042	20,857	165,999	58,355	20,804	660,533
TOTAL FUND EQUITY	156,307	60,787	439,042	20,857	165,999	58,798	20,804	660,533
TOTAL LIABILITIES AND FUND EQUITY	\$ 469,555	\$ 62,399	\$ 814,604	\$ 20,857	\$ 166,181	\$ 88,907	\$ 21,546	\$ 660,533

County of Otsego, Michigan

Combining Balance Sheet Nonmajor Governmental Funds December 31, 2007

	Special Revenue Funds							
	Legal Defense	Emergency 911 Funds	Local Officers Training	Drug Law Enforcement Fund	Law Library	Department of Human Services	Child Care Probate	Soldiers and Sailors Relief
ASSETS:								
Cash and Equivalents	\$ 177,282	\$ 273,800	\$ 15,495	\$ 634	\$ 4,685	\$ 6,942	\$ 257,724	\$ 11,851
Investments	-	100,000	-	-	-	-	-	-
Taxes Receivable	-	-	-	-	-	-	-	-
Accounts Receivable	-	31,701	-	-	-	-	-	-
Due from Other Funds	-	-	-	-	-	-	-	-
Due from Other Governmental Units	-	26,906	-	-	-	-	28,598	-
Inventory	-	-	-	-	-	-	-	-
TOTAL ASSETS	<u>\$ 177,282</u>	<u>\$ 432,407</u>	<u>\$ 15,495</u>	<u>\$ 634</u>	<u>\$ 4,685</u>	<u>\$ 6,942</u>	<u>\$ 286,322</u>	<u>\$ 11,851</u>
LIABILITIES:								
Due to Other Funds	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -
Accounts Payable	17,054	159,383	-	-	355	-	-	88
Due to Other Governmental Units	-	-	-	-	-	-	22,253	-
Accrued Liabilities	-	7,502	-	-	-	-	2,307	-
Deferred Revenues	-	-	-	-	-	-	-	-
TOTAL LIABILITIES	<u>17,054</u>	<u>166,885</u>	<u>-</u>	<u>-</u>	<u>355</u>	<u>-</u>	<u>24,560</u>	<u>88</u>
FUND EQUITY:								
Fund Balances:								
Reserved for Inventory	-	-	-	-	-	-	-	-
Reserved for Schneider Trust	-	-	-	-	-	-	-	-
Reserved for Debt Service	-	-	-	-	-	-	-	-
Reserved for Capital Expenditures	-	-	-	-	-	-	-	-
Unreserved-								
Designated	-	-	-	-	-	-	-	-
Undesignated	160,228	265,522	15,495	634	4,330	6,942	261,762	11,763
TOTAL FUND EQUITY	<u>160,228</u>	<u>265,522</u>	<u>15,495</u>	<u>634</u>	<u>4,330</u>	<u>6,942</u>	<u>261,762</u>	<u>11,763</u>
TOTAL LIABILITIES AND FUND EQUITY	<u>\$ 177,282</u>	<u>\$ 432,407</u>	<u>\$ 15,495</u>	<u>\$ 634</u>	<u>\$ 4,685</u>	<u>\$ 6,942</u>	<u>\$ 286,322</u>	<u>\$ 11,851</u>

County of Otsego, Michigan

Combining Balance Sheet Nonmajor Governmental Funds December 31, 2007

	Special Revenue Funds						Debt Service Fund	Capital Project Funds
	Veteran's Trust	Commission on Aging 9/30/2007	Airport	Bradford Lake	Equipment Revolving	Jail Study	Debt Service	MUNIS Information System
ASSETS:								
Cash and Equivalents	\$ 1,400	\$ 562,051	\$ 42,770	\$ 20,237	\$ 142,614	\$ 28,793	\$ 86,513	\$ 200,000
Investments	-	-	-	-	-	-	-	-
Taxes Receivable	-	-	-	-	-	-	-	-
Accounts Receivable	-	9,200	52,165	-	147	-	2,236	-
Due from Other Funds	-	-	-	-	-	-	-	-
Due from Other Governmental Units	-	-	-	-	-	-	-	-
Inventory	-	891	14,419	-	-	-	-	-
TOTAL ASSETS	\$ 1,400	\$ 572,142	\$ 109,354	\$ 20,237	\$ 142,761	\$ 28,793	\$ 88,749	\$ 200,000
LIABILITIES:								
Due to Other Funds	\$ -	\$ -	\$ -	\$ -	\$ -	\$ 50,000	\$ -	\$ -
Accounts Payable	-	-	50,731	-	-	-	-	-
Due to Other Governmental Units	-	-	-	-	-	-	-	-
Accrued Liabilities	-	32,451	3,743	-	-	-	-	-
Deferred Revenues	-	5,225	-	-	-	-	-	-
TOTAL LIABILITIES	-	37,676	54,474	-	-	50,000	-	-
FUND EQUITY:								
Fund Balances:								
Reserved for Inventory	-	891	14,419	-	-	-	-	-
Reserved for Schneider Trust	-	52,712	-	-	-	-	-	-
Reserved for Debt Service	-	-	-	-	-	-	88,749	-
Reserved for Capital Expenditures	-	-	-	-	142,761	-	-	200,000
Unreserved-								
Designated	-	10,000	-	-	-	-	-	-
Undesignated	1,400	470,863	40,461	20,237	-	(21,207)	-	-
TOTAL FUND EQUITY	1,400	534,466	54,880	20,237	142,761	(21,207)	88,749	200,000
TOTAL LIABILITIES AND FUND EQUITY	\$ 1,400	\$ 572,142	\$ 109,354	\$ 20,237	\$ 142,761	\$ 28,793	\$ 88,749	\$ 200,000

County of Otsego, Michigan

Combining Balance Sheet Nonmajor Governmental Funds December 31, 2007

	Capital Project Funds				
	Animal Control Shelter Building	Library Building	Court Restoration Building	Capital Projects	Total
ASSETS:					
Cash and Equivalents	\$ 11,732	\$ 33,018	\$ -	\$ 403,404	\$ 2,847,587
Investments	36,562	223,574	-	140,000	1,543,560
Taxes Receivable	-	-	-	-	672,885
Accounts Receivable	-	-	-	-	98,254
Due from Other Funds	-	-	-	15,199	15,199
Due from Other Governmental Units	-	-	-	-	74,330
Inventory	-	-	-	-	15,310
TOTAL ASSETS	\$ 48,294	\$ 256,592	\$ -	\$ 558,603	\$ 5,267,125
LIABILITIES:					
Due to Other Funds	\$ -	\$ -	\$ 121,612	\$ -	\$ 193,257
Accounts Payable	-	-	-	27,801	269,096
Due to Other Governmental Units	-	-	-	-	22,253
Accrued Liabilities	-	-	-	-	59,244
Deferred Revenues	-	-	-	-	678,110
TOTAL LIABILITIES	-	-	121,612	27,801	1,221,960
FUND EQUITY:					
Fund Balances:					
Reserved for Inventory	-	-	-	-	15,310
Reserved for Schneider Trust	-	-	-	-	52,712
Reserved for Debt Service	-	-	-	-	88,749
Reserved for Capital Expenditures	48,294	256,592	-	530,802	1,178,449
Unreserved-					
Designated	-	-	-	-	10,443
Undesignated	-	-	(121,612)	-	2,699,502
TOTAL FUND EQUITY	48,294	256,592	(121,612)	530,802	4,045,165
TOTAL LIABILITIES AND FUND EQUITY	\$ 48,294	\$ 256,592	\$ -	\$ 558,603	\$ 5,267,125

County of Otsego, Michigan

Combining Statement of Revenues, Expenditures, and Changes in Fund Balance Nonmajor Governmental Funds For the Year Ended December 31, 2007

Special Revenue Funds								
	Parks & Recreation	Friend of the Court	Animal Control	Animal Control Forfeited Funds	Gypsy Moth Control	Building Department	Register of Deeds Automation Fund	Budget Stabilization Fund
REVENUES:								
Taxes	\$ 299,502	\$ -	\$ 354,273	\$ -	\$ -	\$ -	\$ -	\$ -
Federal Grants	-	70,938	-	-	-	-	-	-
State Grants	-	4,161	-	-	-	-	-	-
Charges for Services	177,336	8,720	61,670	-	-	399,934	42,872	-
Interest & Rentals	12,616	-	22,794	582	7,735	6,058	1,942	18,954
Other Revenues	46,917	-	25,156	825	-	3,253	-	182,608
TOTAL REVENUES	536,371	83,819	463,893	1,407	7,735	409,245	44,814	201,562
EXPENDITURES:								
Judicial	-	76,384	-	-	-	-	-	-
General Government	-	-	-	-	-	-	63,879	-
Public Safety	-	-	286,243	61	-	515,187	-	-
Public Works	-	-	-	-	-	-	-	-
Health And Welfare	-	-	-	-	6,563	-	-	-
Recreation and Culture	525,908	-	-	-	-	-	-	-
Capital Outlay	-	-	-	-	-	-	-	-
Debt Service	-	-	-	-	-	-	-	-
TOTAL EXPENDITURES	525,908	76,384	286,243	61	6,563	515,187	63,879	-
EXCESS (DEFICIENCY) OF REVENUES OVER EXPENDITURES	10,463	7,435	177,650	1,346	1,172	(105,942)	(19,065)	201,562
OTHER FINANCING SOURCES (USES):								
Operating Transfers In	-	-	-	-	-	7,100	-	152,190
Operating Transfers Out	-	-	-	-	-	(4,500)	-	-
EXCESS (DEFICIENCY) OF REVENUES AND OTHER FINANCING SOURCES OVER EXPENDITURES AND OTHER FINANCING USES	10,463	7,435	177,650	1,346	1,172	(103,342)	(19,065)	353,752
FUND BALANCES (DEFICIT), JANUARY 1	145,844	53,352	261,392	19,511	164,827	162,140	39,869	306,781
PRIOR PERIOD ADJUSTMENT	-	-	-	-	-	-	-	-
FUND BALANCES (DEFICIT), DECEMBER 31	\$ 156,307	\$ 60,787	\$ 439,042	\$ 20,857	\$ 165,999	\$ 58,798	\$ 20,804	\$ 660,533

County of Otsego, Michigan

Combining Statement of Revenues, Expenditures, and Changes in Fund Balance Nonmajor Governmental Funds For the Year Ended December 31, 2007

	Special Revenue Funds							
	Legal Defense	Emergency 911 Funds	Local Officers Training	Drug Law Enforcement Fund	Law Library	Department of Human Services	Child Care Probate	Soldiers and Sailors Relief
REVENUES:								
Taxes	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -
Federal Grants	-	-	-	-	-	-	-	-
State Grants	-	2,327	-	-	-	-	190,234	-
Charges for Services	-	548,289	5,271	-	-	-	-	-
Interest & Rentals	-	17,640	-	-	-	-	-	-
Other Revenues	66,734	30,857	-	839	3,500	2,957	68,273	-
TOTAL REVENUES	66,734	599,113	5,271	839	3,500	2,957	258,507	-
EXPENDITURES:								
Judicial	-	-	-	-	7,734	-	-	-
General Government	108,720	-	-	-	-	-	-	-
Public Safety	-	704,075	450	600	-	-	-	-
Public Works	-	-	-	-	-	-	-	-
Health And Welfare	-	-	-	-	-	-	448,216	3,035
Recreation and Culture	-	-	-	-	-	-	-	-
Capital Outlay	-	-	-	-	-	-	-	-
Debt Service	-	-	-	-	-	-	-	-
TOTAL EXPENDITURES	108,720	704,075	450	600	7,734	-	448,216	3,035
EXCESS (DEFICIENCY) OF REVENUES OVER EXPENDITURES	(41,986)	(104,962)	4,821	239	(4,234)	2,957	(189,709)	(3,035)
OTHER FINANCING SOURCES (USES):								
Operating Transfers In	170,000	-	-	-	-	-	325,000	5,000
Operating Transfers Out	-	(12,300)	-	-	-	-	-	-
EXCESS (DEFICIENCY) OF REVENUES AND OTHER FINANCING SOURCES OVER EXPENDITURES AND OTHER FINANCING USES	128,014	(117,262)	4,821	239	(4,234)	2,957	135,291	1,965
FUND BALANCES (DEFICIT), JANUARY 1	32,214	382,784	10,674	395	8,564	3,985	126,471	9,798
PRIOR PERIOD ADJUSTMENT	-	-	-	-	-	-	-	-
FUND BALANCES (DEFICIT), DECEMBER 31	\$ 160,228	\$ 265,522	\$ 15,495	\$ 634	\$ 4,330	\$ 6,942	\$ 261,762	\$ 11,763

County of Otsego, Michigan

Combining Statement of Revenues, Expenditures, and Changes in Fund Balance Nonmajor Governmental Funds For the Year Ended December 31, 2007

	Special Revenue Funds						Debt Service Fund	Capital Project Fund
	Veteran's Trust	Commission on Aging 9/30/2007	Airport	Bradford Lake	Equipment Revolving	Jail Study	Debt Service	MUNIS Information System
REVENUES:								
Taxes	\$ -	\$ 1,163,403	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -
Federal Grants	-	107,112	-	-	-	-	-	-
State Grants	8,833	63,901	-	-	-	-	-	-
Charges for Services	-	198,797	1,026,769	-	-	-	-	-
Interest & Rentals	-	26,467	115,890	886	1,653	-	120,773	-
Other Revenues	-	104,582	34,638	-	9,023	-	-	-
TOTAL REVENUES	8,833	1,664,262	1,177,297	886	10,676	-	120,773	-
EXPENDITURES:								
Judicial	-	-	-	-	-	-	-	-
General Government	-	-	-	-	-	-	-	-
Public Safety	-	-	-	-	-	14,550	-	-
Public Works	-	-	1,261,139	-	-	-	-	-
Health And Welfare	7,953	1,471,161	-	-	-	-	-	-
Recreation and Culture	-	-	-	-	-	-	-	-
Capital Outlay	-	-	-	-	28,626	-	-	14,638
Debt Service	-	-	-	-	-	-	394,715	-
TOTAL EXPENDITURES	7,953	1,471,161	1,261,139	-	28,626	14,550	394,715	14,638
EXCESS (DEFICIENCY) OF REVENUES OVER EXPENDITURES	880	193,101	(83,842)	886	(17,950)	(14,550)	(273,942)	(14,638)
OTHER FINANCING SOURCES (USES):								
Operating Transfers In	-	-	67,000	-	135,000	-	250,500	200,000
Operating Transfers Out	-	-	-	-	(1,100)	-	-	-
EXCESS (DEFICIENCY) OF REVENUES AND OTHER FINANCING SOURCES OVER EXPENDITURES AND OTHER FINANCING USES	880	193,101	(16,842)	886	115,950	(14,550)	(23,442)	185,362
FUND BALANCES (DEFICIT), JANUARY 1	520	341,365	85,992	19,351	26,811	(6,657)	112,191	14,638
PRIOR PERIOD ADJUSTMENT	-	-	(14,270)	-	-	-	-	-
FUND BALANCES (DEFICIT), DECEMBER 31	\$ 1,400	\$ 534,466	\$ 54,880	\$ 20,237	\$ 142,761	\$ (21,207)	\$ 88,749	\$ 200,000

County of Otsego, Michigan

Combining Statement of Revenues, Expenditures, and Changes in Fund Balance Nonmajor Governmental Funds For the Year Ended December 31, 2007

	Capital Project Funds				
	Animal Control Shelter Building	Library Building	Court Restoration Building	Capital Project	Total
REVENUES:					
Taxes	\$ -	\$ -	\$ -	\$ -	\$ 1,817,178
Federal Grants	-	-	-	-	178,050
State Grants	-	-	-	-	269,456
Charges for Services	-	-	66,610	-	2,536,268
Interest & Rentals	2,772	16,112	-	3,712	376,586
Other Revenues	-	-	-	-	580,162
TOTAL REVENUES	2,772	16,112	66,610	3,712	5,757,700
EXPENDITURES:					
Judicial	-	-	-	-	84,118
General Government	-	-	-	-	172,599
Public Safety	-	-	-	-	1,521,166
Public Works	-	-	-	-	1,261,139
Health And Welfare	-	-	-	-	1,936,928
Recreation and Culture	-	-	-	-	525,908
Capital Outlay	-	-	15,199	347,910	406,373
Debt Service	-	-	-	-	394,715
TOTAL EXPENDITURES	-	-	15,199	347,910	6,302,946
EXCESS (DEFICIENCY) OF REVENUES OVER EXPENDITURES	2,772	16,112	51,411	(344,198)	(545,246)
OTHER FINANCING SOURCES (USES):					
Operating Transfers In	-	-	-	375,000	1,686,790
Operating Transfers Out	-	-	-	-	(17,900)
EXCESS (DEFICIENCY) OF REVENUES AND OTHER FINANCING SOURCES OVER EXPENDITURES AND OTHER FINANCING USES	2,772	16,112	51,411	30,802	1,123,644
FUND BALANCES (DEFICIT), JANUARY 1	45,522	240,480	(342,521)	500,000	2,766,293
PRIOR PERIOD ADJUSTMENT	-	-	169,498	-	155,228
FUND BALANCES (DEFICIT), DECEMBER 31	\$ 48,294	\$ 256,592	\$ (121,612)	\$ 530,802	\$ 4,045,165

**Combining Statement of Nets Assets
Internal Service Funds
December 31, 2007**

	Building and Grounds	Administrative Services	Health Care	Total
ASSETS:				
Current Assets:				
Cash and Equivalents	\$ 198,266	\$ 29,724	\$ -	\$ 227,990
Investments	-	-	500,000	500,000
Accounts Receivable	6,987	-	41	7,028
Due from Governmental Units	1,519	-	-	1,519
Prepaid Expense	-	-	53,560	53,560
Inventory	-	325	-	325
TOTAL ASSETS	<u><u>\$ 206,772</u></u>	<u><u>\$ 30,049</u></u>	<u><u>\$ 553,601</u></u>	<u><u>\$ 790,422</u></u>
LIABILITIES:				
Current Liabilities:				
Accounts Payable	\$ 27,974	\$ 1,653	\$ 20,077	\$ 49,704
Accrued Liabilities	1,304	1,572	-	2,876
TOTAL LIABILITIES	<u>29,278</u>	<u>3,225</u>	<u>20,077</u>	<u>52,580</u>
NET ASSETS:				
Unrestricted	<u>177,494</u>	<u>26,824</u>	<u>533,524</u>	<u>737,842</u>
TOTAL NET ASSETS	<u>177,494</u>	<u>26,824</u>	<u>533,524</u>	<u>737,842</u>
TOTAL LIABILITIES AND FUND EQUITY	<u><u>\$ 206,772</u></u>	<u><u>\$ 30,049</u></u>	<u><u>\$ 553,601</u></u>	<u><u>\$ 790,422</u></u>

**Combining Statement of Revenues, Expenses, and Changes
in Net Assets - Internal Service Funds
For the Year Ended December 31, 2007**

	Building and Grounds	Administrative Services	Health Care	Total
OPERATING REVENUES:				
Charges for Services	\$ 644,096	\$ 377,161	\$ -	\$ 1,021,257
Other	-	-	1,259,650	1,259,650
TOTAL OPERATING REVENUES	644,096	377,161	1,259,650	2,280,907
OPERATING EXPENSES:				
Salaries, Wages, and Fringe Benefits	145,051	355,838	-	500,889
Contractual Services	24,391	2,013	-	26,404
Materials and Supplies	8,635	2,950	-	11,585
Equipment Repair and Maintenance	65,082	352	-	65,434
Utilities	238,050	825	-	238,875
Other	3,863	7,251	1,257,265	1,268,379
TOTAL OPERATING EXPENSES	485,072	369,229	1,257,265	2,111,566
OPERATING INCOME (LOSS)	159,024	7,932	2,385	169,341
Non operating Revenues (Expenses):				
Interest Earnings	-	-	30,230	30,230
Changes in Net Assets	159,024	7,932	32,615	199,571
Net Assets - January 1, 2007	18,470	18,892	500,909	538,271
Net Assets - December 31, 2007	\$ 177,494	\$ 26,824	\$ 533,524	\$ 737,842

County of Otsego, Michigan

Combining Statement of Cash Flows Internal Service Funds For the Year Ended December 31, 2007

	Building and Grounds	Administrative Services	Health Care	Totals
CASH FLOWS FROM OPERATING ACTIVITIES:				
Receipts from Customers	\$ 127,892	\$ 1,360	\$ 1,259,957	\$ 1,389,209
Payments to Suppliers	(339,354)	(12,140)	(910,570)	(1,262,064)
Payments to Employees for Services and Benefits	(146,051)	(355,601)	-	(501,652)
Internal Activity - Receipts (Payments) to Other Funds	514,663	375,801	(395,306)	495,158
Net Cash Provided (Used) by Operating Activities	157,150	9,420	(45,919)	120,651
CASH FLOWS FROM INVESTING ACTIVITIES:				
Interest Earnings	-	-	30,230	30,230
Net Sale or (Purchase) of Investments	-	-	15,689	15,689
Net Cash Provided (Used) by Investing Activities	-	-	45,919	45,919
Net Increase (Decrease) in Cash and Equivalents	157,150	9,420	-	166,570
Balances - Beginning of the Year	41,116	20,304	-	61,420
Balances - End of the Year	\$ 198,266	\$ 29,724	\$ -	\$ 227,990
Reconciliation of Operating Income (Loss) to Net Cash Provided (Used) by Operating Activities:				
Operating Income (Loss)	\$ 159,024	\$ 7,932	\$ 2,385	\$ 169,341
Adjustments to Reconcile Operating Income (Loss) to Net Cash Provided (Used) by Operating Activities:				
Change in Assets and Liabilities:				
Due from Other Governmental Units	1,538	-	-	1,538
Accounts Receivable	10,754	-	307	11,061
Prepaid Expense	-	-	(53,560)	(53,560)
Accounts Payable	(3,851)	1,251	4,949	2,349
Accrued Liabilities	(1,000)	237	-	(763)
Deferred Revenue	(9,315)	-	-	(9,315)
Net Cash Provided (Used) by Operating Activities	\$ 157,150	\$ 9,420	\$ (45,919)	\$ 120,651

Combining Statement of Net Assets
Nonmajor Enterprise Funds
December 31, 2007

	Tax Foreclosure Fund	Global Positioning System Fund	University Center Metropolitan Area Network	Jail Commissary	Total
ASSETS:					
Current Assets:					
Cash and Equivalents	\$ 113,953	\$ 24,825	\$ 21,455	\$ 16,538	\$ 176,771
Total Current Assets	113,953	24,825	21,455	16,538	176,771
Noncurrent Assets:					
Capital Assets (Net of Accumulated Depreciation)	-	-	196,777	-	196,777
TOTAL ASSETS	<u>\$ 113,953</u>	<u>\$ 24,825</u>	<u>\$ 218,232</u>	<u>\$ 16,538</u>	<u>\$ 373,548</u>
LIABILITIES:					
Current Liabilities:					
Accrued Liabilities	\$ 348	\$ -	\$ -	\$ -	\$ 348
Accounts Payable	734	9,525	-	881	11,140
TOTAL LIABILITIES	1,082	9,525	-	881	11,488
NET ASSETS:					
Invested in Capital Assets	-	-	196,777	-	196,777
Unrestricted	112,871	15,300	21,455	15,657	165,283
TOTAL NET ASSETS	<u>\$ 112,871</u>	<u>\$ 15,300</u>	<u>\$ 218,232</u>	<u>\$ 15,657</u>	<u>\$ 362,060</u>

County of Otsego, Michigan

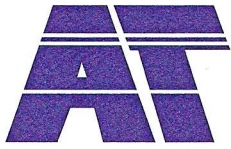
Combining Statement of Revenues, Expenses, and Changes in Net Assets - Nonmajor Enterprise Funds For the Year Ended December 31, 2007

	Tax Foreclosure Fund	Global Positioning System Fund	University Center Metropolitan Area Network	Jail Commissary	Total
OPERATING REVENUES:					
Local Sources	\$ -	\$ 6,500	\$ -	\$ -	\$ 6,500
Charges for Services	80,015	10,451	39,546	4,924	134,936
TOTAL OPERATING REVENUES	80,015	16,951	39,546	4,924	141,436
OPERATING EXPENSES:					
Salaries, Wages, and Fringe Benefits	10,599	-	-	5,196	15,795
Contractual Services	-	51,621	-	-	51,621
Materials and Supplies	4,583	-	44,807	1,386	50,776
Depreciation	-	-	12,297	-	12,297
Other Expenses	-	579	-	955	1,534
TOTAL OPERATING EXPENSES	15,182	52,200	57,104	7,537	132,023
OPERATING INCOME (LOSS)	64,833	(35,249)	(17,558)	(2,613)	9,413
NON OPERATING REVENUES (EXPENSES):					
Interest Earnings	1,502	-	1,143	-	2,645
INCOME (LOSS) BEFORE CONTRIBUTIONS AND TRANSFERS	66,335	(35,249)	(16,415)	(2,613)	12,058
Operating Transfers In	-	9,000	-	-	9,000
Changes in Net Assets	66,335	(26,249)	(16,415)	(2,613)	21,058
Net Assets - January 1, 2007	46,536	41,549	234,647	18,270	341,002
Net Assets - December 31, 2007	\$ 112,871	\$ 15,300	\$ 218,232	\$ 15,657	\$ 362,060

**Combining Statement of Cash Flows
Nonmajor Enterprise Funds
For the Year Ended December 31, 2007**

	Tax Foreclosure Fund	Global Positioning System Fund	University Center Metropolitan Area Network	Jail Commissary	Totals
CASH FLOWS FROM OPERATING ACTIVITIES:					
Receipts from Customers	\$ 80,015	\$ 16,951	\$ 39,546	\$ 4,924	\$ 141,436
Payments to Suppliers	(16,898)	(52,322)	(44,807)	(6,710)	(120,737)
Net Cash Provided (Used) by Operating Activities	63,117	(35,371)	(5,261)	(1,786)	20,699
CASH FLOWS FROM NONCAPITAL AND RELATED FINANCING ACTIVITIES:					
Operating Transfers In	-	9,000	-	-	9,000
Net Cash Provided (Used) by Noncapital and Related Financing Activities	-	9,000	-	-	9,000
CASH FLOWS FROM INVESTING ACTIVITIES:					
Interest Earnings	1,502	-	1,143	-	2,645
Net Cash Provided (Used) by Investing Activities	1,502	-	1,143	-	2,645
Net Increase (Decrease) in Cash and Equivalents	64,619	(26,371)	(4,118)	(1,786)	32,344
Balances - Beginning of the Year	49,334	51,196	25,573	18,324	144,427
Balances - End of the Year	<u>\$ 113,953</u>	<u>\$ 24,825</u>	<u>\$ 21,455</u>	<u>\$ 16,538</u>	<u>\$ 176,771</u>
Reconciliation of Operating Income (Loss) to Net Cash Provided (Used) by Operating Activities:					
Operating Income (Loss)	\$ 64,833	\$ (35,249)	\$ (17,558)	\$ (2,613)	\$ 9,413
Adjustments to Reconcile Operating Income (Loss) to Net Cash Provided (Used) by Operating Activities:					
Depreciation Expense	-	-	12,297	-	12,297
Change in Assets and Liabilities:					
Accrued Liabilities	348	-	-	-	348
Accounts Payable	(2,064)	(122)	-	827	(1,359)
Net Cash Provided (Used) by Operating Activities	<u>\$ 63,117</u>	<u>\$ (35,371)</u>	<u>\$ (5,261)</u>	<u>\$ (1,786)</u>	<u>\$ 20,699</u>

Reports on Compliance



ANDERSON, TACKMAN & COMPANY, PLC
CERTIFIED PUBLIC ACCOUNTANTS

KINROSS OFFICE

PHILLIP J. WOLF, CPA, PRINCIPAL
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DIVISION FOR CPA FIRMS

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OFFICES IN
MICHIGAN & WISCONSIN

**REPORT ON INTERNAL CONTROL OVER FINANCIAL REPORTING AND ON
COMPLIANCE AND OTHER MATTERS BASED ON AN AUDIT OF FINANCIAL
STATEMENTS PERFORMED IN ACCORDANCE WITH
GOVERNMENT AUDITING STANDARDS**

Members of the Board
County of Otsego, Michigan
225 West Main Street
Gaylord, Michigan 49735

We have audited the financial statements of the governmental activities, the business-type activities, the aggregate discretely presented component units, each major fund, and the aggregate remaining fund information of the County of Otsego, Michigan, as of and for the year ended December 31, 2007, which collectively comprise the County of Otsego, Michigan's basic financial statements and have issued our report thereon, dated June 12, 2008. Our report was modified to include a reference to other auditors. We conducted our audit in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards* issued by the Comptroller General of the United States. Other auditors audited the financial statements of the Otsego County Road Commission and the Otsego County Commission on Aging, as described in or report on the County of Otsego, Michigan's financial statements. This report does not include the results of the other auditors' testing of internal control over financial reporting or compliance and other matters that are reported on separately by those auditors.

Internal Control Over Financial Reporting

In planning and performing our audit, we considered the County of Otsego, Michigan's internal control over financial reporting as a basis for designing our auditing procedures for the purpose of expressing our opinion on the financial statements, but not for the purpose of expressing an opinion on the effectiveness of the County of Otsego, Michigan's internal control over financial reporting. Accordingly, we do not express an opinion on the effectiveness of the County's internal control over financial reporting.

Our consideration of internal control over financial reporting was for the limited purpose described in the preceding paragraph and would not necessarily identify all deficiencies in internal control over financial reporting that might be significant deficiencies or material weaknesses. However, as discussed below, we identified certain deficiencies in internal control over financial reporting that we consider to be significant deficiencies.

A control deficiency exists when the design or operation of a control does not allow management or employees, in the normal course of performing their assigned functions, to prevent or detect misstatements on a timely basis. A significant deficiency is a control deficiency, or combination of control deficiencies, that adversely affects the County's ability to initiate, authorize, record, process, or report financial data reliably in accordance with generally accepted accounting principles such that there is more than a remote likelihood that a misstatement of the County's financial statements that is more than inconsequential will not be prevented or detected by the County's internal control. We consider the deficiencies described in the accompanying summary schedule of prior audit findings to be significant deficiencies in internal control over financial reporting, as items 04-2 and 03-1.

A material weakness is a significant deficiency, or combination of significant deficiencies, that results in more than a remote likelihood that a material misstatement of the financial statements will not be prevented or detected by the County's internal control.

Our consideration of the internal control over financial reporting was for the limited purpose described in the first paragraph of this section and would not necessarily identify all deficiencies in the internal control that might be significant deficiencies and, accordingly, would not necessarily disclose all significant deficiencies that are also considered to be material weaknesses. However, we believe that none of the significant deficiencies described above is a material weakness.

Compliance and Other Matters

As part of obtaining reasonable assurance about whether the County of Otsego, Michigan's financial statements are free of material misstatement, we performed tests of its compliance with certain provisions of laws, regulations, contracts and grant agreements, noncompliance with which could have a direct and material effect on the determination of financial statement amounts. However, providing an opinion on compliance with those provisions was not an objective of our audit and, accordingly, we do not express such an opinion. The results of our tests disclosed one instance of noncompliance or other matters that are required to be reported under *Government Auditing Standards*, and which is described in the accompanying schedule of findings and questioned costs as items 07-1.

We also noted certain additional matters that we reported to management of the County of Otsego, Michigan in a separate letter dated June 12, 2008.

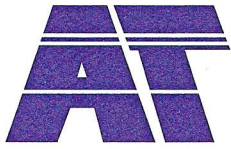
Otsego County's response to the findings identified in our audit are described in the accompanying schedule of findings and questioned costs and summary schedule of prior audit findings. We did not audit Otsego County's responses; and accordingly, we express no opinion on it.

This report is intended solely for the information and use of the Board of Commissioners, management, federal awarding agencies, pass-through entities and others within the organization and is not intended to be and should not be used by anyone other than these specified parties.



Anderson, Tackman & Company, PLC
Certified Public Accountants

June 12, 2008



ANDERSON, TACKMAN & COMPANY, PLC
CERTIFIED PUBLIC ACCOUNTANTS

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MICHIGAN & WISCONSIN

**REPORT ON COMPLIANCE WITH REQUIREMENTS APPLICABLE TO
EACH MAJOR PROGRAM AND ON INTERNAL CONTROL OVER
COMPLIANCE IN ACCORDANCE WITH OMB CIRCULAR A-133**

Members of the Board
County of Otsego, Michigan
225 West Main Street
Gaylord, Michigan 49735

Compliance

We have audited the compliance of the County of Otsego, Michigan with the types of compliance requirements described in the U.S. Office of Management and Budget (OMB) Circular A-133 *Compliance Supplement* that are applicable to each of its major federal programs for the year ended December 31, 2007. The County's major federal programs are identified in the summary of auditor's results section of the accompanying schedule of findings and questioned costs. Compliance with the requirements of laws, regulations, contracts, and grants applicable to each of its major federal programs is the responsibility of the County's management. Our responsibility is to express an opinion on the County's compliance based on our audit.

Otsego County's basic financial statements include the operations of the Otsego County Road Commission which received \$1,458,124 in federal awards which is not included in the schedule during the year ended December 31, 2007. Our audit, described below, did not include the operations of the Otsego County Road Commission because the Commission engaged other auditors to perform an audit in accordance with OMB Circular A-133.

We conducted our audit of compliance in accordance with auditing standards generally accepted in the United States of America; the standards applicable to financial audits contained in *Government Auditing Standards* issued by the Comptroller General of the United States; and OMB Circular A-133, *Audits of States, Local Governments, and Non-Profit Organizations*. Those standards and OMB Circular A-133 require that we plan and perform the audit to obtain reasonable assurance about whether noncompliance with the types of compliance requirements referred to above that could have a direct and material effect on a major federal program occurred. An audit includes examining, on a test basis, evidence about the County's compliance with those requirements and performing such other procedures as we considered necessary in the circumstances. We believe that our audit provides a reasonable basis for our opinion. Our audit does not provide a legal determination of the County's compliance with those requirements.

In our opinion, the County of Otsego, Michigan complied, in all material respects, with the requirements referred to above that are applicable to each of its major federal programs for the year ended December 31, 2007.

Internal Control Over Compliance

The management of the County of Otsego, Michigan is responsible for establishing and maintaining effective internal control over compliance with the requirements of laws, regulations, contracts, and grants applicable to federal programs. In planning and performing our audit, we considered the County of Otsego, Michigan's internal control over compliance with requirements that could have a direct and material effect on a major federal program in order to determine our auditing procedures for the purpose of expressing our opinion on compliance, but not for the purpose of expressing an opinion on the effectiveness of internal control over compliance. Accordingly, we do not express an opinion on the effectiveness of the County's internal control over compliance.

A control deficiency in an entity's internal control over compliance exists when the design or operation of a control does not allow management or employees, in the normal course of performing their assigned functions, to prevent or detect noncompliance with a type of compliance requirement of a federal program on a timely basis. A significant deficiency is a control deficiency, or combination of control deficiencies, that adversely affects the entity's ability to administer a federal program such that there is more than a remote likelihood that noncompliance with a type of compliance requirement of a federal program that is more than inconsequential will not be prevented or detected by the entity's internal control.

A material weakness is a significant deficiency, or combination of significant deficiencies that results in more than a remote likelihood that material noncompliance with a type of compliance requirement of a federal program will not be prevented or detected by the County's internal control.

Our consideration of internal control over compliance was for the limited purpose described in the first paragraph of this section and would not necessarily identify all deficiencies in internal control that might be significant deficiencies or material weaknesses. We did not identify any deficiencies in internal control over compliance that we consider to be material weaknesses, as defined above.

This report is intended solely for the information and use of the Board of Commissioners, audit committee, management, federal awarding agencies, pass-through entities and others within the organization and is not intended to be and should not be used by anyone other than these specified parties.



Anderson, Tackman & Company, PLC
Certified Public Accountants

June 12, 2008

County of Otsego, Michigan

Schedule of Expenditures of Federal Awards For the Year Ended December 31, 2007

Federal Grantor/Pass-through Grantor/Program Title	Federal CFDA Number	Agency or Pass-through Number	Federal Expenditures
U.S. DEPARTMENT OF AGRICULTURE:			
Pass-through Northeast Michigan Community Service Agency, Inc.			
Nutrition Services Incentive-Title III C1	10.570	N/A	15,554
Nutrition Services Incentive-Title III C2	10.570	N/A	12,157
Subtotal NMCSA, Inc.			27,711
Pass-through Michigan Department of Natural Resources			
Schools and Roads Grant - Timber Sales	10.665	N/A	4
Total U.S. Department of Agriculture			27,715
U.S. DEPARTMENT OF JUSTICE:			
Pass-through programs from the Michigan Department			
Human Services:			
Juvenile Accountability Incentive Block Grant - 02/01/06 to 01/31/07	16.523	JABGN-06-69001	2,726
Juvenile Accountability Incentive Block Grant - 02/01/07 to 01/31/08	16.523	JABGN-07-69001	18,031
Total U.S. Department of Justice			20,757
U.S. DEPARTMENT OF TRANSPORTATION:			
Pass-through programs from the Michigan Department of			
Transportation:			
Airport Project - State Administered	20.205	N/A	18,187
Airport Project - State Administered	20.205	05-0097	3,892
Airport Project - State Administered	20.205	05-0245	178,945
Airport Project - State Administered	20.205	07-0585	1,280,435
Operating Grant - Section 5311	20.509	2002-0079/Z17	264,350
Total U.S. Department of Transportation			1,745,809
U.S. DEPARTMENT OF HEALTH AND HUMAN SERVICES:			
Pass-through programs from the Michigan Department of Human Services:			
Incentive Reimbursement	93.563	N/A	51,170
PA CRP Title IV-D - 10/1/06 to 9/30/07	93.563	CS/PA-07-69002	24,271
PA CRP Title IV-D - 10/1/07 to 9/30/08	93.563	CS/PA-08-69002	8,107
FOC CRP Title IV-D - 10/1/06 to 9/30/07	93.563	CS/FOC-07-16002	233,999
FOC CRP Title IV-D - 10/1/07 to 9/30/08	93.563	CS/FOC-08-16002	101,754
Subtotal -MDHS			419,301
Pass-through programs from the Michigan Office of Services to the Aging:			
Pass-through Northeast Michigan Community Services Agency, Inc.			
Special Programs for the Aging			
Title III Part B - Supportive Services and Senior Centers			
Respite	93.044	N/A	2,000
Homemaker	93.044	N/A	11,527
Personal Care	93.044	N/A	10,123
Title III Part C - Nutrition Services			
Congregate Meals	93.045	N/A	29,526
Home Delivered Meals	93.045	N/A	8,946
Title III Part E - National Family Caregiver Support			
Respite (Up & Go)	93.052	N/A	7,889
Respite	93.052	N/A	2,967
Resource Room	93.052	N/A	2,000
Healthy Moves	93.052	N/A	2,813
Grandparents Kinship	93.052	N/A	900
Grand Parent	93.052	N/A	710
Total pass-through NEMCSA, Inc.			79,401
Total U.S. Department of Health and Human Services			498,702

**Schedule of Expenditures of Federal Awards
For the Year Ended December 31, 2007**

Federal Grantor/Pass-through Grantor/Program Title	Federal CFDA Number	Agency or Pass-through Number	Federal Expenditures
U.S. DEPARTMENT OF HOMELAND SECURITY:			
Pass-through programs from the Michigan Department of State			
Police, Emergency Management Division:			
Emergency Management Performance Grants 10/01/06-09/30/07	97.042	N/A	10,218
2005 Law Enforcement Terrorism PP	97.067	N/A	14
Total pass-through MDSP, EMD			10,232
Total U.S. Department of Homeland Security			10,232
TOTAL EXPENDITURES OF FEDERAL AWARDS			\$ 2,303,215

NOTE A - BASIS OF PRESENTATION

The accompanying schedule of expenditures of federal awards includes the federal grant activity of the County of Otsego, Michigan and is presented on the modified accrual basis of accounting. The information in this schedule is presented in accordance with the requirements of OMB Circular A-133, Audits of States, Local Governments, and Non-Profit Organizations. Therefore, some amounts presented in this schedule may differ from amounts presented in, or used in the preparation of, the basic financial statements.

NOTE B - COGNIZANT AGENCY

The County has not been assigned a cognizant agency. Therefore, the County is under the general oversight of the U.S. Department of Transportation which provided the greatest amount of indirect federal funding to the County during 2007.

NOTE C - FEDERAL REVENUES

Federal Revenues per Financial Statement:	
Government Funds	\$ 2,041,527
Enterprise Funds:	
Operating	264,350
State Grants Classified as Federal	<u>(2,662)</u>
Total Federal Expenditures	<u>\$ 2,303,215</u>

NOTE E – AIRPORT GRANTS

The Michigan Department of Transportation (MDOT) requires that airports report all Federal and State grants pertaining to their county. During the calendar year ended December 31, 2007, the Federal aid received and expended by the Airport was \$1,481,459 for contracted projects. Contracted projects are defined as projects performed by private contractors paid for and administrated by MDOT. The contracted federal projects are not subject to single audit requirements by the airports as they are included in MDOT's single audit.

Section I – Summary of Auditor’s Results

Financial Statements

Type of auditors' report issued: Unqualified

Internal control over financial reporting:

Material weaknesses identified? No

Significant deficiencies identified
that are not considered to be
material weaknesses? Yes

Noncompliance material to financial
statements noted? Yes

Federal Awards

Internal control over major programs:

Material weaknesses identified? No

Significant deficiencies identified
that are not considered to be
material weaknesses? No

Type of auditors' report issued on
compliance for major programs: Unqualified

Any audit findings disclosed that are
required to be reported in accordance
with section 510(a) of Circular A-133? No

Identification of Major Programs**CFDA NUMBERS****Name of Federal Program or Cluster**

93.563 Child Support Enforcement

Dollar threshold used to distinguish
between type A and type B programs: \$300,000

Auditee qualified as low-risk auditee? No

Section II – Financial Statement Findings

STATUTORY COMPLIANCE

Deficit Fund Balances/Net Assets

Finding 07-1

Condition: As of December 31, 2007, a deficit existed in the unreserved fund balance (governmental funds) and unreserved net assets (proprietary fund) in the following funds:

	<u>Fund Balance</u>
Special Revenue:	
Jail Study	\$ (21,207)
Capital Project:	
Courthouse Restoration	(121,612)

Criteria: Noncompliance with PA 140 of 1971, as Amended, Failure to File Reports and Deficit Elimination Plans.

“For a fiscal year of a unit of local government ending on or after October 1, 1980 or any year thereafter, if a local unit of government ends its fiscal year in a deficit condition, the local unit of government shall formulate and file a financial plan within 90 days after the beginning of the fiscal year to correct this condition. Upon request of a local unit of government the Department of Treasury may assist that local unit in the formulation of the financial plan to correct the deficit condition. The local unit of government shall file the financial plan with the Department of Treasury for evaluation and certification that the plan ensures that the deficit condition is corrected. Upon certification by the Department of Treasury, the local unit of government shall institute the plan. An amount equal to 25% of each payment to a local unit of government entitled to payments under this act may be withheld until requirements of this subsection are met.”

The County failed to formulate and file a deficit elimination plan within 90 days after the beginning of a fiscal year to correct a deficit condition which existed at the end of the previous fiscal year (MCL 141.921(2)). The financial plan is to be filed with the state treasurer.

Cause: Unknown.

Recommendation: We recommend the County to file a Deficit Elimination Plan as required by PA 140 of 1971, as amended. If the deficit has been eliminated subsequent to December 31, 2007, the county should still submit a plan and demonstrate that the plan has already been completed with the desired results.

- *Contact Person(s) Responsible for Correction*
John Burt, County Administrator
- *Corrective Action Planned:*
It was not possible for the county administrator to file this report accurately or timely due to items mentioned in previous comments, along with the previous management responses.
- *Anticipated Completion Date:*
All reports will be filed within 30 days of receiving accurate, audited 2007 figures.

Section III – Federal Award Findings and Questioned Costs

NONE.

Section II – Financial Statement Findings

STATUTORY COMPLIANCE

Deficit Fund Balances/Net Assets

Finding 06-1

Condition: As of December 31, 2006, a deficit existed in the unreserved fund balance (governmental funds) and unreserved net assets (proprietary fund) in the following funds:

	<u>Fund Balance</u>
Special Revenue:	
Jail Study	\$ (6,657)
Capital Project:	
Courthouse Restoration	(342,521)

Criteria: Noncompliance with PA 140 of 1971, as Amended, Failure to File Reports and Deficit Elimination Plans.

“For a fiscal year of a unit of local government ending on or after October 1, 1980 or any year thereafter, if a local unit of government ends its fiscal year in a deficit condition, the local unit of government shall formulate and file a financial plan within 90 days after the beginning of the fiscal year to correct this condition. Upon request of a local unit of government the Department of Treasury may assist that local unit in the formulation of the financial plan to correct the deficit condition. The local unit of government shall file the financial plan with the Department of Treasury for evaluation and certification that the plan ensures that the deficit condition is corrected. Upon certification by the Department of Treasury, the local unit of government shall institute the plan. An amount equal to 25% of each payment to a local unit of government entitled to payments under this act may be withheld until requirements of this subsection are met.”

The County failed to formulate and file a deficit elimination plan within 90 days after the beginning of a fiscal year to correct a deficit condition which existed at the end of the previous fiscal year (MCL 141.921(2)). The financial plan is to be filed with the state treasurer.

Cause: Unknown.

Recommendation: We direct the County to file a Deficit Elimination Plan as required by PA 140 of 1971, as amended. If the deficit has been eliminated subsequent to December 31, 2006, the county should still submit a plan and demonstrate that the plan has already been completed with the desired results.

- Contact Person(s) Responsible for Correction
John Burt, County Administrator

Section II – Financial Statement Findings – (Continued)

STATUTORY COMPLIANCE (Continued)

- **Corrective Action Planned**

It was not possible for the county administrator to file this report accurately or timely due to items mentioned in previous comments, along with the previous management responses.

- **Anticipated Completion Date**

All reports will be filed within 30 days of receiving accurate, audited 2006 figures.

Status: Similar deficits were noted in 2007.

General Inmate Fund Bank Account Reconciliation

Finding 04-2

Condition: The general inmate fund bank account balance is not properly reconciled monthly to the checkbook balance administered by jail personnel.

Criteria: All bank accounts must be reconciled in a timely manner and reconciled to subsidiary records. The reconciliation must contain a listing of deposits in transit and outstanding checks. All discrepancies must be investigated.

Recommendation: We recommend that the bank balance be reconciled to the checkbook balance and the checkbook balance be reconciled to the total inmate account balances, after all commissions earned from commissary sales are transmitted to the county treasurer. And discrepancies should be investigated and corrected promptly. This should be done monthly on a timely basis.

- **Contact Person(s) Responsible for Correction**

James McBride, County Sheriff

- **Corrective Action Planned**

In the matter concerning reconciliation, the corrective action being implemented will be in compliance with the auditor's recommendation. Monthly, the inmate checking account checkbook will be balanced with the monthly bank statement and account balances, the bank account has been changed to a business account to aid in the process. Also, a new software program (Swanson Cobra Banker) has been installed and implemented. The new software allows easier bank reconciliation.

- **Anticipated Completion Date**

In accordance with this recommendation, this will be done monthly in a timely manner.

Status: The account is reconciled but not to the inmate account balances.

Section II – Financial Statement Findings – (Continued)

OTHER SIGNIFICANT DEFICIENCIES

Although the following are not considered material weaknesses in internal control, we wish to point out certain other significant deficiencies for consideration by the management of Otsego County.

Treasurer – Common Account Reconciliation

Finding 03-1

Condition: Since the discontinuance of the sweep account for vendor payments and the re-establishment of a separate account for these payments, the general checking account monthly reconciliations continue to show variances with the general ledger. The initial unexplained variances date back to 2001 and have not been fully resolved as of the audit date. We also found that the reconciliation procedures employed by the treasurer's office are unnecessarily complex. The reconciliation reconciles the book to bank instead of the adjusted bank to the book balance.

At the beginning of 2005, the County hired a local accounting firm to help reconcile the common bank account. Upon further review, the accounting firm found that other bank accounts, including the payroll checking and housing accounts, were also not reconciled. We also found that the investment accounts were not reconciled which lead to adjustments made to all investment accounts in nearly all the funds.

Finally, the County has established a cash line-item titled "Equity in Pooled Cash" for all funds using multiple common bank accounts that are reconciled together as common cash. These common bank accounts consist of both cash and investments.

Criteria: Strong internal controls require that bank accounts be reconciled on a timely basis. All local governmental units must establish physical control to secure and safeguard vulnerable assets. Examples include security for and limited access to assets such as cash, securities, inventories, and equipment which might be vulnerable to the risk of loss or unauthorized use. Such assets should be periodically counted and reconciled to control records.

Further, the Uniform Chart of Accounts established by the Michigan Department of Treasury establishes line-items for both cash and investments. The separation of these accounts is also necessary for the facilitation of the financial statements for reporting requirements established by the Governmental Accounting Standards Board Statements No. 40.

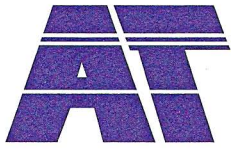
Recommendation: We recommend that procedures be established that fully reconcile all bank accounts to the general ledger on a monthly basis. Additionally, we recommend that the treasurer establish sub accounts for cash and investment accounts that reconcile to the individual bank or financial institution accounts. Currently, several bank accounts may reconcile to a single general ledger account. This requires that each journal entry, affecting a bank account, be tracked on a set of complex spreadsheets.

Section II – Financial Statement Findings – (Continued)

OTHER SIGNIFICANT DEFICIENCIES (Continued)

- Contact Person(s) Responsible for Correction
Diann Axford, County Treasurer
- Corrective Action Planned
Payroll and housing accounts were reconciled as of December 31, 2004, and copies were given to the auditors along with the reconciliation done by the accounting firm in 2005. There were some transfers that needed to be taken care of and that has been taken care of.
- Anticipated Completion Date
Corrective action has already been done.

Status: There was substantial improvement in this area. All bank accounts are now reconciled on a monthly basis. The reconciliations should be performed on a timelier basis (within a month). Separate accounts are now in place for cash and investments. The reconciliations are still completed reconciling from book balance to bank instead of ending bank to book.



ANDERSON, TACKMAN & COMPANY, PLC
CERTIFIED PUBLIC ACCOUNTANTS

KINROSS OFFICE

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MEMBER AICPA
DIVISION FOR CPA FIRMS

MEMBER MACPA

OFFICES IN
MICHIGAN & WISCONSIN

COMMUNICATION WITH THOSE CHARGED WITH GOVERNANCE

County of Otsego, Michigan
225 W. Main St.
Gaylord, Michigan 49735

We have audited the financial statements of the governmental activities, the business-type activities, the aggregate discretely presented component units, each major fund, and the aggregate remaining fund information of the County of Otsego, Michigan for the year ended December 31, 2007, and have issued our report thereon dated June 12, 2008. Professional standards require that we provide you with the following information related to our audit.

Our Responsibility under U.S. Generally Accepted Auditing Standards and OMB Circular A-133

As stated in our engagement letter dated October 23, 2007, our responsibility, as described by professional standards, is to express opinions about whether the financial statements prepared by management with your oversight are fairly presented, in all material respects, in conformity with U.S. generally accepted accounting principles. Our audit of the financial statements does not relieve you or management of your responsibilities.

In planning and performing our audit, we considered the County of Otsego, Michigan's internal control over financial reporting in order to determine our auditing procedures for the purpose of expressing our opinions on the financial statements and not to provide assurance on the internal control over financial reporting. We also considered internal control over compliance with requirements that could have a direct and material effect on a major federal program in order to determine our auditing procedures for the purpose of expressing our opinion on compliance and to test and report on internal control over compliance in accordance with OMB Circular A-133.

As part of obtaining reasonable assurance about whether the County of Otsego, Michigan's financial statements are free of material misstatement, we performed tests of its compliance with certain provisions of laws, regulations, contracts and grants, noncompliance with which could have a direct and material effect on the determination of financial statement amounts. However, providing an opinion on compliance with those provisions was not an objective of our audit. Also, in accordance with OMB Circular A-133, we examined, on a test basis, evidence about the County of Otsego, Michigan's compliance with the types of compliance requirements described in the "U.S. Office of Management and Budget (OMB) Circular A-133 Compliance Supplement" applicable to each of its major federal programs for the purpose of expressing an opinion on the County of Otsego, Michigan's compliance with those requirements. While our audit provides a reasonable basis for our opinion, it does not provide a legal determination on the County of Otsego, Michigan's compliance with those requirements.

Planned Scope and Timing of the Audit

We performed the audit according to the planned scope and timing previously communicated to you in our meeting about planning matters on October 23, 2007.

Significant Accounting Policies

Qualitative Aspects of Accounting Practices

Management is responsible for the selection and use of appropriate accounting policies. In accordance with the terms of our engagement letter, we will advise management about the appropriateness of accounting policies and their application. The significant accounting policies used by the County of Otsego, Michigan are described in Note 1 to the financial statements. No new accounting policies were adopted and the application of existing policies was not changed during the year. We noted no transactions entered into by the governmental unit during the year for which there is a lack of authoritative guidance or consensus. There are no significant transactions that have been recognized in the financial statements in a different period than when the transaction occurred.

Accounting estimates are an integral part of the financial statements prepared by management and are based on management's knowledge and experience about past and current events and assumptions about future events. Certain accounting estimates are particularly sensitive because of their significance to the financial statements and because of the possibility that future events affecting them may differ significantly from those expected. The most sensitive estimate affecting the financial statements was:

- Management's estimate of the depreciation expense based on estimated lives. We evaluated the key factors and assumptions used to develop the estimate in determine that it is reasonable in relation to the financial statements taken as a whole.

Difficulties Encountered in Performing the Audit

We encountered no significant difficulties in dealing with management in performing and completing our audit.

Corrected and Uncorrected Misstatements

Professional standards require us to accumulate all known and likely misstatements identified during the audit, other than those that are trivial, and communicate them to the appropriate level of management. Management has corrected all such misstatements. In addition, none of the misstatements detected as a result of audit procedures and corrected by management were material, either individually or in the aggregate, to the financial statements taken as a whole.

Disagreement with Management

For purposes of this letter, professional standards define a disagreement with management as a financial accounting, reporting, or auditing matter, whether or not resolved to our satisfaction, that could be significant to the financial statements or the auditor's report. We are pleased to report that no such disagreements arose during the course of our audit.

Management Representations

We have requested certain representations from management that are included in the management representation letter dated June 12, 2008.

Management Consultations with Other Independent Accountants

In some cases, management may decide to consult with other accountants about auditing and accounting matters, similar to obtaining a "second opinion" on certain situations. If a consultation involves application of an accounting principle to the governmental unit's financial statements or a determination of the type of auditor's opinion that may be expressed on those statements, our professional standards require the consulting accountant to check with us as to determine the consultant has all the relevant facts. To our knowledge, there were no such consultations with other accountants.

Other Audit Findings or Issues

We generally discuss a variety of matters, including the application of accounting principles and auditing standards, with management each year prior to retention as the governmental unit's auditors. However, these discussions occurred in the normal course of our professional relationship and our responses were not a condition to our retention.

Comments and Recommendations

Inventory (Prior Year)

The airport fuel inventory recorded on the general ledger has not been updated at year end. We recommend that the inventory balance be updated periodically to an actual count.

Interest Receivable – Delinquent Tax Fund (Prior Year)

Because the Delinquent Tax Fund is on the full accrual method of accounting, an interest receivable should be accrued for the 2006 and 2005 tax collections.

Personal Property Taxes (Prior Year)

Currently, the County is not recording the amount of outstanding delinquent personal property taxes that are due to the County in the general ledger. It is recommended the County record the amount of outstanding delinquent personal property taxes in the general ledger of each fund that has a tax levy. The County should maintain subsidiary ledgers which show the amount of delinquent personal property taxes owed by each taxing unit by individual tax year.

Bonuses (Prior Year)

When we reviewed accrued payroll at the University Center we noted \$21,500 accrued which was for bonuses for three individuals for 2007. We asked management for board approval of the bonuses and the only item noted in the minutes was that the board approved compensation packages for 2007 with no mention of the bonuses. We recommend that approval of bonuses be noted in the board minutes to evidence their approval.

Payroll (Prior Year)

In our testing of payroll, it was noted that many employees W-4's are outdated. It is recommended that employees periodically complete and update their W-4's.

In our testing of payroll it was noted that some employees did not have I-9 or Michigan New Hire forms in their personnel files. It is recommended employees hired after November 6, 1986 have a completed I-9 included in their personnel file and employees hired after October 1, 1997 have a completed Michigan New Hire form in their personnel file.

Taxes Receivable and Revenue

During our testing of tax revenue and taxes receivable, an audit adjustment of \$106,219 was required to properly accrue property taxes in the General Fund. The County should accrue property taxes annually without auditor intervention.

Other Matters

During our testing of the University Center, we noted the Center paid \$1,457 for a retirement brunch for a retiring board member. Per the Michigan Department of Treasury, retirement recognition events/gifts are unlawful expenditures for local units of government.

GASB Statement 45 – Accounting and Financial Reporting by Employers for Post-Employment Benefits Other Than Pensions

In June 2004, the GASB issued Statement 45, which establishes standards for the measurement, recognition, and display of other post-employment benefits (OPEB) expense/expenditures and related liabilities (assets), note disclosures, and, if applicable, required supplementary information in the financial reports of state and local governmental employers. OPEB includes post-employment healthcare as well as other post-employment benefits such as life insurance.

The Statement is implemented in three phases, with the County of Otsego required to implement the Statement for the year ended December 31, 2008. GASB Statement 45 will impact the future accounting of post-employment health insurance costs as it relates to the amount the County will be required to pay for these benefits. Beginning in 2008, the County will be required by governmental generally accepted accounting principles to pay the current cost of providing those benefits as well as an amount needed to fund a portion of the unfunded liability relating to post-employment health benefit. The unfunded liability will be required to be actuarially determined and will be amortized over a period likely not to exceed thirty years. The methods used as part of Statement 45 are similar to those currently used to determine required contribution rates for defined benefit pension plans.

The County Board of Commissioners as well as County Management should begin to consider the impact of GASB Statement 45 prior to the required implementation date.

Conclusion

This information is intended solely for the information and use of the Board of Commissioners, management, federal and state awarding agencies, pass-through entities and others within the organization and is not intended to be and should not be used by anyone other than these specified parties.



Anderson Tackman & Company, PLC
Certified Public Accountants

June 12, 2008